THE FREEMAN

IDEAS ON LIBERTY

The Pilgrims in Holland

Why College Costs Are Rising

Minimum Wage, Maximum Harm

The Banking Crisis

NOVEMBER 1988

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THE FOUNDATION FOR ECONOMIC EDUCATION, INC.
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Bruce M. Evans

Remembering Who We Are

The election of national leaders brings forth feelings of anxiety and expectancy. Yet, change often carries a glimmer of hope, even in the minds of hardened realists or confirmed skeptics.

Somehow, coming off a season of defeats, a football team retains a spark of optimism that its first game can be won. Similarly, we often feel a new year will be better than the last—or a new can of coffee offers a better aroma. It may even be possible that a new President will be better than the last one.

Americans are harsh judges of political figures. Our feelings are a curious mixture of high hopes and not-so-high expectations.

We hope for a return to personal initiative and responsibility, but we expect a continuation of current welfare state policies. We hope for a return to reason and logic in meeting problems of natural resources and economic policy, but we expect that special interest groups will continue to hold sway. Thus, we are frequently the schizophrenic victims of hope and despair.

Many of us had parents who said to us in some way as we prepared to leave home: "Remember who you are." And I want to suggest that here: Remember who you are.

Free people have been characterized throughout history by initiative, courage, independence, and compassion—all of which contribute to a better quality of life. Traditionally, free people ask only for an opportunity.

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Elected officials in America once were seen as people of character, integrity, principles, and good judgment—chosen to protect the interests of all the people. It was understood that special interest issues were not to be settled by governmental intervention, but through peaceful interactions in the market.

We need leaders who will help us understand that if we try to advance our vested, selfish interests through political means, we will restrict our own freedom, as well as that of our fellowmen.

Edmund Burke once said: "The great difference between the real statesman and the pretender is that one sees into the future, while the other regards only the present; the one lives by the day, and acts on expediency; the other acts on enduring principles and for immortality."

If there were fewer calls for expediency and political intervention, there would be far less of the same. Much of the regulation which we find so offensive is brought on by the abuse of influence and by special request. Group after group is organized to secure more money or advantage through government intervention.

In his address urging adoption of the United States Constitution, Benjamin Franklin stated: ". . . I cannot help expressing a wish that every member . . . would doubt a little of his own infallibility."

Let us ask our officials to recall their own fallibility. Let us ask them to remember that the constitutional purposes of government pertain to the protection of life, liberty, and property, and to leave our personal and social problems to individual and community initiatives.

Whether one's perspective is optimistic or pessimistic, we should note with Emerson that "This time, like all times, is a very good one, if we but know what to do with it."

Let us use it well!

—BRUCE M. EVANS
President

Civilization

The Declaration of Independence lists "the pursuit of happiness" as among the most fundamental of rights. In this the framers were realists, rather than moralists.

Civilization has greatly advanced in material wealth and its intellectual underpinnings: steadily, clearly, and progressively the standard of living has risen and the proportion of total output devoted to life's necessities has fallen. Indeed, in many cases, today's understanding of a necessity was yesterday's understanding of a luxury.

Moralists may prefer to think of civilization as progress in "the pursuit of virtue," but evidence for this is scanty. Violence, coercion, and fraud flourish everywhere, even in the most "civilized" and "advanced" countries. Nor are crimes and sins of man against man less abundant now than in yesteryear.

"Civilized," literally, means "fit for life in cities." And indeed it is the cities that are most vibrant economically and intellectually, centers of commerce and know-how, filled with trade and economic and intellectual specialization and cooperation. As Jefferson described the "march of civilization"— "like a cloud of light, increasing our knowledge and improving our condition."

But as Jefferson so often predicted, cities are also among the places least given to virtue and most given to vice, with violence done to persons and property everywhere in sight.

What does this mean to those of us devoted to the freedom philosophy? It means that while the pursuit of happiness, and the economic and intellectual progress that makes it possible, are aided greatly by the cooperation, competition, and specialization of the marketplace, the pursuit of virtue is intrinsically a matter of individual effort dedicated to self-improvement. This the Founders understood.

—JOSEPH S. FULDA

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THE FREEMAN
IDEAS ON LIBERTY

The Pilgrims in Holland

by Robert A. Peterson

The Dutch have given many things to America: Easter eggs, Santa Claus, waffles, sauerkraut, sleighing, skating, and a host of "vans" and "velts" who helped to build our nation.[1] But perhaps their greatest contribution to America was the 11 years of freedom they gave the Pilgrims—crucial years that helped America's founding fathers work out their philosophy of freedom and prepare for self-government in the New World.

The story of Holland's rise due to free market policies has already been sketched in a previous *Freeman* article.[2] Suffice to say that her struggle for independence from Spain was of epic proportions: when, after a siege of several months, the citizens of Leyden talked of surrender, one burgomaster fortified their spirits by saying, "Here is my sword; plunge it, if you will, into my heart, and divide my flesh among you to appease your hunger; but expect no surrender as long as I am alive."[3] The burgomaster lived—and so did the rest of the citizens of Leyden—to see the day when William the Silent routed the besieging Spaniards. The defense of Leyden turned the tide, and from then on the Dutch never looked back in their fight for freedom. Once they were free, the Dutch embraced much of what we would call a free market philosophy and set up a limited government. In the early 1600s, Holland was the most liberal society in Europe.

Mr. Peterson is headmaster of The Pilgrim Academy in Egg Harbor City, New Jersey. His articles have appeared in a variety of publications, including National Review *and* Human Events.

It should not surprise us, then, that when English Separatists began to think of emigrating, they thought of Holland. But emigrating to Holland would be no easy task: Englishmen could not leave the country without permission. Never mind—the Separatists would leave secretly. The first group—members of a Brownist church in Gainsborough, went over in 1607; hearing good reports, members of the Scrooby congregation—the group which included many of the Pilgrim Fathers—prepared to follow. After several attempts to escape, the Pilgrims finally succeeded, arriving in Amsterdam on a Dutch ship.

Soon after, they applied to the authorities in Leyden to settle there. John Robinson, their pastor, made a formal application to the Burgomasters and Court of Leyden, stating that about 100 English men and women wanted to come to the city to live "and to have the freedom thereof in carrying on their trades, without being a burden in the least to any one."[4]

The application was granted on February 12, 1609. The Dutch authorities declared that "they refuse no honest persons free ingress to come and have their residence in this city, provided that such persons behave themselves, and submit to the laws and ordinances." Their coming, the Dutch authorities added, "will be agreeable and welcome."[5] As early as the 1600s, the Dutch—with few natural resources of their own—realized the importance of human capital.

The Dutch didn't provide a welcome-wagon of gifts and subsidies: there were no govern-

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ment handouts. What they did offer the Pilgrims was freedom—the freedom to worship according to their consciences as well as to succeed or fail in the Dutch marketplace.

Britain's King James, hearing of the Pilgrims' arrival in Leyden, sent a letter of protest to the town authorities. Jan Van Hout, secretary of the City of Leyden, gave a polite reply, but made no effort either to expel the Pilgrims or to help King James capture them.[6] The Pilgrims were *free men*.

The Meaning of Freedom

Free men. For the Pilgrims, this was a new idea. Just what did it mean to be free? With the external pressure of persecution lifted, would the Pilgrims remain true to their original calling? Or would they turn liberty into license and lose their distinctive identity? Time would show that the Pilgrims took seriously their responsibilities of self-government. Indeed, the Dutch experience would prove to be an excellent half-way house to the freedom the Pilgrims would find in the New World. For the next 11 years, the Pilgrims took advantage of all the opportunities that Dutch society offered.

Because of their excellent reputation for honesty and hard work, the Pilgrims were able to obtain loans and jobs which they needed to set themselves up in Holland. In a market economy, there is no substitute for keeping one's word and honoring contracts. William Bradford, who later became governor of Plymouth Colony, wrote: "And first, though many of them were poor, yet there was none so poor but if they were known to be of that congregation the Dutch (either bakers or others) would trust them in any reasonable matter when they wanted money, because they found by experience how careful they were to keep their word, and saw them so painful and diligent in their callings. Yea, they would strive to get their custom and to employ them above others in their work, for their honesty and diligence."[7]

Most of the Pilgrims went to work in the textile industry, something for which they had little experience. William Bradford became a fustian worker, while others became weavers, woolcombers, and merchant tailors. In England, almost all had been farmers, following the same patterns of medieval agriculture that their fathers and grandfathers had followed. It must have been hard for grown men to learn a

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new trade, but it was the price they had to pay to live in a relatively free society. Moreover, it helped to make the Pilgrims an adaptable and teachable people.

At first, the Pilgrims held church services in the homes of various members. But in 1611, the Pilgrims bought a large house to be used for church services and as a residence for their pastor, John Robinson.[8] Left alone by the Dutch, the Pilgrims were finding that Christians could support a church without the aid of government. In Robinson's house, the Pilgrims continued to exercise the congregationalist form of church government which would have such a great impact on American republicanism. The New England town meeting traces its origin to the congregational church, not to ancient Greece, as many high school history texts erroneously teach.

The Pilgrims also took advantage of Holland's laissez-faire government to set up a small publishing house. Working near the limits of the long arm of King James, William Brewster and Edward Winslow ran a printing press where Puritan tracts and books were published and sent back to England. In all, Brewster published between 15 and 20 books. Unfortunately, the Dutch could not withstand the pressure from the English government forever, and were compelled to shut down Brewster's press in 1619. Yet they refused to arrest Brewster himself.[9]

Tolerance

The Netherlands' atmosphere of religious freedom tended to have a liberalizing effect on the Pilgrims. John Robinson, for example, was invited to debate at Leyden University. Although he never changed his Separatist views, he did learn that men of different faiths could live together without killing one another. Later, in the New World, Plymouth Colony would prove to be a handy buffer zone between the Puritans' Massachusetts Bay Colony and the more radical colonists in Rhode Island. When Harvard's first president, Henry Dunster, for example, resigned because he came to reject the Puritan doctrine of infant baptism, he settled in Plymouth. The Pilgrims also believed in infant baptism, but they had become tolerant enough to "agree to disagree" with other Christians like Dunster.

The Pilgrims weren't the only ones to benefit from the freedom offered by seventeenth-century Dutch society. Indeed, as one historian put it, there was a steady "flow of exiles, English and Scottish, who sought refuge in Holland from the religious persecution and political violence of seventeenth-century England and Scotland."[10] Literally thousands of English and Scottish Dissenters, unwelcome at Oxford and Cambridge, were educated at the Universities of Leyden and Utrecht. Even John Locke, who had to flee England, benefited from refuge in the Lowlands. Historian Dr. R. Colie has written: ". . . in the city of Amsterdam where writing and printing were so natural to all great minds, Locke began to become Locke, and the obscure political exile turned into the philosopher *par excellence* of a new regime in thought."[11] And when the people of England sought a new pair of monarchs to usher in an age of toleration and freedom, they found them in Holland: William and Mary. The result was England's Glorious Revolution, one of the few bloodless revolutions in history. A year later, England had a Bill of Rights.

The 11 years the Pilgrims spent in Holland saw them grow in responsibility, adaptability, and self-government. As Bradford Smith put it in his biography of William Bradford, "The libertarian tradition at Plymouth, with its profound influence on American life, is not primarily English. It is Dutch. Simple justice demands that we acknowledge this. . . . Thus, during their Leyden years, were the Pilgrims perfecting themselves for the undreamed of work of founding a new nation. In religion, they grew milder and more tolerant. In business and craftsmanship they learned a great deal from the thrifty, ambitious and highly capable Hollanders. Too, the Dutch flair for efficient government and record keeping, the spirit of republicanism and civic responsibility were to bear unsuspected fruit in a distant land."[12]

The Pilgrims left Leyden in 1620; William Bradford described their departure in a now-famous passage which later gave the Pilgrims their name: "So they left that goodly and pleasant city which had been their resting place near twelve years; but they knew they were pil-

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Edward Winslow (1595–1655), Mayflower Pilgrim, a founder and governor of Plymouth Colony.

grims, and looked not much on those things, but lift up their eyes to the heavens, their dearest country, and quieted their spirits."[13]

The Mayflower Compact

When the Pilgrims finally landed in America, Separatists and Anglicans joined together to form America's first written constitution—the Mayflower Compact. It was a crucial precedent for self-government in America.

Despite their experience in Holland's free economy, the Pilgrims tried a brief experiment in agricultural socialism when they arrived in America. This experiment, based on a false reading of the Book of Acts, caused widespread starvation. Fortunately, before it was too late, the Pilgrims saw their error and abandoned their "common course" in favor of private property. As Bradford later explained, "This had very good success, for it made all hands very industrious, so as much corn was planted than otherwise would have been by any means the Governor or any other could use, and saved him a great deal of trouble, and gave far better content. . . . The experience that was had in this common course and condition, tried sundry years and that amongst godly and sober men, may well evince the vanity of that conceit of Plato's and other ancients applauded by some of later times; that the taking away of property and bringing in community into a commonwealth would make them happy and flourishing; as if they were wiser than God."[14]

Some present-day historians believe that the Pilgrims have been overrated, that this little band of 100 or so English farmers doesn't deserve such an exalted position in the popular American imagination. Such an attitude is understandable, since most of these same writers disagree with everything for which the Pilgrims stood. Our forefathers knew better. Even before the Revolutionary War, they were celebrating "Old Comers Day" and "Forefathers Day" to honor the coming of the Pilgrims and, more important, the values they represented—including religious, civil, and economic liberty.

This Thanksgiving, let's remember that the material blessings most of us will enjoy this season were made possible by the principles of self-government under God that served the Dutch and the Pilgrims so well in the seventeenth century. Within the space of 20 years, the Pilgrims moved from a static, medieval society to laying the "cornerstone of a nation." We may still profit from their example. □

1. Thomas A. Bailey and David M. Kennedy, *The American Pageant*, Vol. I (Lexington, Mass.: D. C. Heath and Co., 1979), p. 36.
2. Robert A. Peterson, "Lessons in Liberty: The Dutch Republic, 1579-1750," *The Freeman*, July, 1987, pp. 259-264.
3. William Stevenson, *The Story of the Reformation* (Richmond, Virginia: John Knox Press, 1959), p. 125.
4. John Brown, *The Pilgrim Fathers of New England and Their Puritan Successor* (New York: Fleming H. Revell, 1896), pp. 120-121.
5. *Ibid.*
6. Mary B. Sherwood, *Pilgrim: A Biography of William Brewster* (Falls Church, Virginia: Great Oak Press of Virginia, 1982), p. 117.
7. William Bradford, *Of Plymouth Plantation*, ed. Samuel Eliot Morison (New York: Alfred A. Knopf, 1952, 1982), pp. 19-20.
8. Sherwood, p. 123.
9. *Ibid.*, p. 134.
10. Charles Wilson, *The Dutch Republic* (New York: McGraw-Hill Book Co., 1968), p. 183.
11. *Ibid.*, p. 175.
12. Bradford Smith, *Bradford of Plymouth* (Philadelphia: Lippincott, 1951), p. 78.
13. Bradford, p. 47.
14. *Ibid.*, pp. 120-121.

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PR Morality

by William H. Peterson

What is public relations?

Someone puts poison in Tylenol capsules, people die, and the CEO of Johnson & Johnson is on the spot. As is the CEO of McDonald's when a crazed gunman invades one of its restaurants and shoots down 22 people.

As John deButts of AT&T put it, public relations means CEOs have to "Face the Nation" and "Meet the Press." CEOs also have to spiff up the corporate image, cope with unseemly events, be upright community leaders, support good causes, and practice corporate philanthropy. Public relations also means, more broadly, gaining public support for some activity, cause, product, movement, institution, region, corporation, or industry.

But those meanings are still too wishy-washy for Marvin Olasky, a professor of journalism at the University of Texas at Austin and author of a brilliant analysis, *Corporate Public Relations: A New Historical Perspective* (Lawrence Erlbaum Associates, 365 Broadway, Hillsdale, NJ 07642, 1987, 190 pp., $24.95).

He seeks to inject a moral dimension into what passes for public relations, a profession that critics have derided as so much "ballyhoo," "huckstering," and "press agentry," as so many "high-priced errand boys and buffers for management."

Look, says Olasky, how sycophantic if not Machiavellian public relations frequently has become. The public relations counselor all too often is a weather vane advocate who meets plots with counterplots, whose unspoken motto is: My cause, company, industry, or client right or wrong. Accordingly. . .

Our adversary issues polls, we issue polls. They hire academics, we hire academics. They parade doctors, we parade doctors. The decades-old public relations battle of the tobacco industry and its cancer and heart disease critics is a case in point. Some legislative repercussions: banning tobacco commercials on TV and mandatory warning labels on cigarette packages.

Thus the plotting and counterplotting get morally foggier when public relations gets into the government-industry arena. Industry A retains Washington public relations firm B to deal with country C which pays "starvation" wages and "dumps" its exports on U.S. shores, thereby threatening X thousand American jobs. Solution: pass domestic content legislation or impose a tariff or quota on the offending foreign goods—at the consumer's expense!

Such counterplotting becomes even murkier, morally speaking, with the arrival of PACs—political action committees that dole out big bucks to political candidates whose votes might not be for sale but could be for rent.

PACs as a public relations tool—apart from "speech" honoraria at up to $2,000 a pop for Congressmen and Senators—would have thrilled Ivy Lee and Edward Bernays. Lee and Bernays were two public relations pioneers whose careers earlier in this century are traced

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by Olasky and whose adherence to the truth and unmanipulated public opinion may not always have been of the highest order. Olasky quotes from the blunt Bernays book of 1928, *Propaganda:*

> The conscious and intelligent manipulation of the organized habits and opinions of the masses is an important element in democratic society. Those who manipulate this unseen mechanism of society constitute an invisible government which is the true ruling power of our country.

Even before Lee and Bernays, the art of massaging public opinion and enlisting government action was hardly unknown. The art seemed to follow the reply of Cornelius Vanderbilt to a newspaper reporter that "the public be damned." This was countered by the much-publicized idea of Ivy Lee, public relations counselor to John D. Rockefeller, that "the public be informed."

But just how is the public to be informed? Or is now and then the public in fact disinformed?

COURTESY OF CHICAGO HISTORICAL SOCIETY

Samuel Insull (1859–1938)

The Art of Winning Friends

Olasky recounts how railroad executives like Charles Francis Adams, Jr., of the Union Pacific and Chauncey DePew of the New York Central worked hard to win friends and influence people against competition in rail transportation which they variously described as "internecine," "cut-throat," "predatory," "dog-eat-dog," or by any other invective handy to the PR fraternity of the day.

One answer, argued Adams and DePew, was a "constructive" Federal rate-setting bureau. This answer was strangely seconded by farm organizations who likened railroaders, meat packers, coal operators, and the like to "robber barons," a phrase circulated by Ida Tarbell, Lincoln Steffens, and other "muckraking" commentators of industry in that era.

In any event, President Grover Cleveland signed the Interstate Commerce Act into law on February 4, 1887. Thus did the Interstate Commerce Commission, granddaddy of the Federal regulatory agencies, come into being. And so was transportation pricing bureaucratized and politicized—i.e., wrested from the free market.

In like manner, in the account of Olasky, did utility magnate Samuel Insull, as president of the National Electric Light Association, pull public opinion strings, campaigning that electric utilities are "natural monopolies," that "franchise security" could best be achieved by government utility rate- and profit-setting commissions.

The campaign largely worked, even if recent analysis shows that there is nothing natural about such monopolies, and economists have demonstrated that competition in electricity provision can lead to lower prices and better service.

Olasky also describes how corporate public relations people pulled out the stops to promote FDR's woebegone "Blue Eagle" National Recovery Administration program in 1933 to boost depressed prices and cut competition through official industry-cartelizing "codes." The then-perceived problem was deflation.

In early 1971 the perceived problem was inflation. So the corporate PR machine again went to work, this time on behalf of wage and price controls, which Richard Nixon instituted

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on August 15, 1971. The controls failed, with the Consumer Price Index jumping 8.8 per cent in 1973 and 12.2 per cent in 1974, the year in which the controls were lifted.

So avoid moral ambivalence and unholy alliances, counsels Professor Olasky to public relations practitioners and counselors, especially alliances with the state. He even counsels emphasizing *private* relations rather than public relations so as to help keep private enterprise private.

With courtesy and firmness, public relations managers should begin to tell presumptuous regulatory-minded bureaucrats, professors, fund-raisers, news reporters, and especially politicians: "Leave us be. None of your business."

In truth Olasky is on to a moral conundrum. But one rub with his advice is seen in our mixed or, rather, mixed-up economy. Businessmen and politicians have become to a considerable extent bagmen to each other. Our once limited government has become unlimited, a *quid pro quo* government in which naked vote-buying and vote-selling are on the auction block.

For sale in terms of votes are legal exemptions, inclusions, subsidies, contracts, benefits, tax breaks, and so on. This is all too often the business of City Hall, the State House, and Washington, D.C.

As H. L. Mencken put it, an election is an advance auction of stolen goods.

The conundrum is real. With the government share of GNP amounting to some 36 per cent (two-thirds of that Federal), and with government rules and regulations impinging on business in a thousand and one ways, how does Mr. Businessman extricate himself from the trappings of the state while safeguarding the interests of his stockholders? Does he not have the First Amendment right of corporate citizenship to speak out on public policies and issues bearing on his company, industry or, indeed, the entire economy?

Is not Marvin Olasky providing, then, a micro solution to what is really a macro problem—i.e., the need to relimit unlimited government?

Who Gives What to Whom?

The problem is further seen in a second incisive Olasky work, *Patterns of Corporate Philanthropy* (Capital Research Center, 1612 K Street, N.W., Suite 605, Washington, DC 20006, 1987, 247 pp., $25 paperback). But here Professor Olasky perceives at least a partial solution to our macro problem as he looks into the billion-dollar public affairs gift criteria of the *Forbes* 100 largest firms, from Aetna Life to Xerox. He sees a funding pattern that raises questions of prudence, ethics, and strategy.

He wonders why, for example, Exxon gives to the National Association for the Advancement of Colored People's Legal Defense and Education Fund which sues corporations on affirmative action grounds, why Chrysler supports the National Organization for Women's Legal Defense and Education Fund which sues firms in comparable worth cases, why Atlantic Richfield gave $200,000 in 1985 to the "liberal" (his word) John F. Kennedy School of Government at Harvard University.

If such giving is indeed "hush money," asks Olasky, does the noise level actually go down? He holds that corporate leaders should rethink their position. He says they should focus on their long-run security and strategically invest in individual-responsibility, free-market, limited-government approaches and organizations —organizations that seek to safeguard and enhance the political, social, cultural, and economic environment in which business operates.

Accordingly he hails the late Henry Ford II who, rather audaciously, quit the Ford Foundation's board of trustees on the moral premise that while the foundation is, in the words of Ford, "a creature of capitalism . . . [i]t is hard to discern recognition of this fact in anything the foundation does."

Would that more corporate leaders would take such a moral stand. □

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Why College Costs Are Rising

by John Hood

Government help is rarely helpful. And in the case of American higher education, as administrators and faculty help themselves to billions of dollars in subsidies, government has boosted prices and encouraged waste beyond reason.

College costs are skyrocketing. Though a majority of young people are continuing to seek higher education, either because they hope it will pay off in the long run or because it is expected of them, the burden being placed on families is tremendous. Parents are finding their life savings dwindling under the strain. Young men and women are going further into debt than ever before, hoping that future earnings will make repayment relatively painless. All are wondering if the education students are receiving is worth the investment. And through it all, more and more taxpayers' dollars are being routed through state and Federal programs to fund grants and guaranteed loans.

Since 1980 the cost of going to college has risen twice as fast as the cost of living, climbing 57 per cent between 1981 and 1986. The Consumer Price Index went up 26 per cent during the same period. On average, a four-year college education now costs more than $25,000—while at some elite schools like Harvard and Stanford, the bill comes to as much as $70,000. This explosion of college costs has even outpaced the much-decried increase of medical care costs, up 47 per cent between 1981 and 1986. During the same period, the cost of all commodities went up 12 per cent, while the average cost of all services rose 31 per cent. In short, the cause of burgeoning college expenses lies not in the general economy, but in higher education itself.

The burden on families has become critical. From 1981 to 1986, college costs rose 80 per cent faster than median family income. Expressed another way, the portion of the median family income needed to pay tuition and expenses at a public college or university went from 11.3 per cent to 13.1 per cent over that period. For families sending a student to a private institution, costs went from 31.2 per cent to 40.1 per cent. Has the real value of a college degree increased so much since the beginning of the decade, or are parents simply paying too much for their children's education?

All the available evidence points to the latter conclusion. "I think students are getting ripped off," says Robert V. Iosue, president of York College of Pennsylvania. He points out that American colleges and universities have raised prices even more than the gross numbers show by providing less education per dollar—trimming the school year, requiring and offering fewer classes, arbitrarily declaring three-credit classes to be four-credit classes, cutting the length of classroom periods, and spending less money on libraries and other educational programs. "It is a concerted effort on the part of faculty to say, 'Hey, we are working too hard; let's pull back a bit,' " Iosue says.

Indeed, tuition increases have not improved

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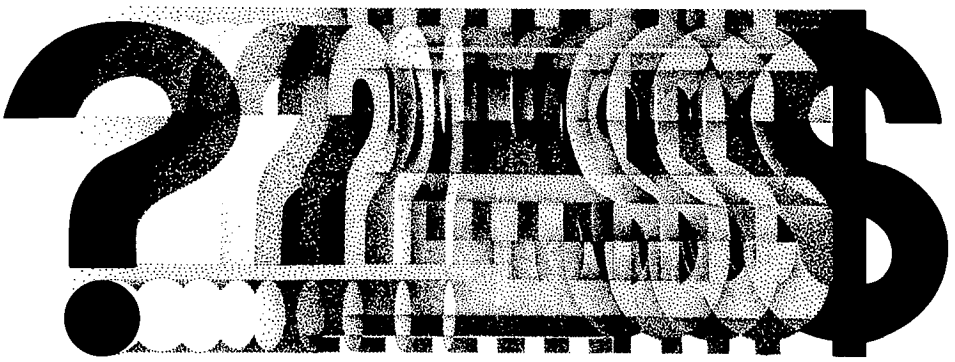

higher education in any measurable way. Academic standards have remained constant or have even fallen during the 1980s. This should be no surprise, since the extra funds raised through price hikes are going mostly to administration, not instruction. According to the Higher Education General Information Survey, the portion of total funds spent on instruction at American colleges and universities declined over 4 per cent between 1974-75 and 1984-85, while the administrative portion increased by almost 13 per cent during the same period. Another portion of the academic pie getting an increase during the period was "student services"—a dubious category including not only institutional financial aid but everything from "safe sex" kits to college-run counseling services.

"Our policy is total Robin Hood," says Eamon M. Kelly, president of Tulane University. "We put our tuition up as high as possible and then put most of the extra money into financial aid." Michael O'Keefe, president of the Consortium for the Advancement of Private Higher Education, puts it this way: "At some colleges, institutional student aid now exceeds total expenditures for the educational program. It makes one wonder what business these colleges are in, higher education or income transfer." Exempting student services and administrative costs, the share of expenditures for almost everything else—research, libraries, instruction, operation, and maintenance—has gone down between 1975 and 1985.

To regular observers of government at work, this scenario is far from unique. In so many areas, ranging from telecommunications to agriculture to electric power, government "help" in the form of subsidies has allowed firms to raise prices above the market price, encouraged waste and inefficient "cross-subsidies" (overcharging one customer to subsidize another), and created an ever-increasing "need" for government expenditures. The higher education market operates in the same manner.

Though President Reagan's foes continue to deny and obscure it, the Reagan administration has been a very generous subsidizer of higher education. Federal student aid appropriations increased from $5.1 billion to $9.0 billion between 1981 and 1986, a 77 per cent increase, while the Consumer Price Index rose 26 per cent. Total available student aid (including loan programs that leverage private funds with Federal dollars) shot up over 60 per cent during the same period, or more than twice the rate of inflation. Not to be outdone, state governments also have allowed the bucks to flow: state subsidies went from $20.9 billion to $30.7 billion between 1981 and 1986, an increase after inflation of about 20 per cent.

More Need-Based Aid

More important, the focus of financial aid shifted during the 1970s from merit-based (including entitlements like the GI Bill and Social Security that are not means-tested) to need-based (like Federal Pell grants and guaranteed loan programs). By the beginning of this decade, the student aid regime had become largely predicated on need, linking the availability of Federal subsidies to students' ability to pay. Colleges, naturally, took the bait—and made school more expensive to attend, thus boosting their Federal dole. This, in turn,

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fueled the political pressure on government to increase its need-based student aid. A vicious circle began. By the 1985-86 school year, need-based aid accounted for 95 per cent of all Federal student aid. Only a decade before, such aid accounted for a minuscule portion of Federal aid budgets.

One way to get a better grasp of this process is to consider the difference between an economic market and a political market. In an economic market, the potential to make a profit puts a premium on efficiency. In a political market, in which there is no profit incentive, a premium is placed on sheer expenditure—and, to a certain extent, on inefficiency, since evidence that a particular political program is failing is usually grounds not for ending it, as a business might do, but for increasing its funding (to "solve" the problem). These general principles have been discussed at length elsewhere, but their application to higher education is illuminating. Economist Howard Bowen wrote in his 1980 book, *The Costs of Higher Education,* that colleges and universities exhibit the following market behavior: 1) each institution raises all the money it can; 2) each institution spends all it raises; 3) the cumulative effect is toward ever-increasing expenditures.

Even Governor Mario Cuomo of New York seems exasperated at the tenacious bureaucratic waste of college administrations. At a budget presentation earlier this year, Cuomo blasted the State University of New York for failing to suggest budget savings. "They couldn't identify a single budget-cutting measure—not one penny's worth," he said at the presentation. "I found it really inexplicable. . . .The whole mentality was: 'You get whatever you can for your agency.' "

Waste is rampant in other states as well. Northern Illinois University recently opened a new engineering school, at an estimated cost of $65 million to $85 million over the first 10 years, even though there were 1,700 empty places in three other engineering programs within a 65-mile radius. In the "student services" area, California Polytechnic State Institute offers a program to help freshmen overcome shyness, while Pennsylvania State University gives out Roommate Starter Kits to ease that dreaded campus trauma. Even Harvard University, which offers some of the most prestigious graduate programs in the world, managed to spend $100,000 building a guardhouse that a Boston hotel later duplicated for $5,000.

Absence of Price Competition

One factor behind these costly mistakes and extravagances is the virtual absence of price competition, especially among private schools. "The goal of pricing is to get into a pack," says Christopher Small, vice-president of the University of Tulsa. "You want to be a part of a group, not an aberration." Though this phenomenon has long been accepted in the Ivy League, where attendance has become a luxury good for the very rich or academically gifted, pack pricing—or pricing high to boost prestige—can be found in other areas. At a Washington higher education seminar earlier this year an administrator at one Michigan college joked that he was considering writing an "honest" tuition-increase letter to parents, saying that the school is maintaining high tuition for prestige rather than, as asserted in previous years, to offset rising operational costs.

In fact, there is an added irony in the higher education market: since colleges seem to be getting away with steep tuition hikes without losing a significant number of students, they have come to rely on such hikes to fuel their expenditure binges, while keeping the proceeds of other fund-raising activities—like charitable donations and investments—"in reserve." Even as college administrators justified price increases on the grounds that more money was needed to meet operating expenses and to fund student scholarships, charitable contributions to higher education rose from $4.2 billion in 1981 to $6.3 billion in 1985, a 22 per cent increase when adjusted for inflation. Between 1981 and 1986, endowments of higher education institutions grew from $20.9 billion to an estimated $42 billion, a 60 per cent increase after inflation. The money was there, but the cushion provided by government subsidies allowed administrators the luxury of raising prices instead.

Why is it that colleges have been able to boost their prices without losing many stu-

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dents? According to the laws of economics, it would seem that charging more than the optimum market price would cause supply to exceed demand. Yet total enrollment has fallen only once during this decade (in 1984) despite the fact that the college-age population has shown a marked decline. Higher percentages of 18- to 24-year olds went to college in 1985 than in 1980. According to a recent Bureau of Labor Statistics study, 58 per cent of the high school class of 1985 went on to college in the fall, compared to 49 per cent in 1980.

This continued high demand, in the face of rising prices, can be attributed to many factors. Polls show that a large majority of Americans think a college education is more important today than it was in the past. Therefore, it appears that (for now) families are willing to pay exorbitant amounts of money, perceiving that the investment is worth it. To be sure, it is obvious that one factor elevating college education to this revered "necessity" status is the availability of government subsidies, especially guaranteed loan programs that delay the real costs of education until later. The phenomenal number of defaults on such loans demonstrates their economic inefficiency, as well as their growing strain on government budgets. According to Education Secretary William Bennett, defaults last year cost taxpayers $1.1 billion, up from $254 million in 1980 and $117 million in 1975.

Who Pays the Bill?

The high cost of government loan defaults spotlights the most important factor in maintaining the inordinate demand for higher education: consumers of the product are not the same as the purchasers of the product. Taxpayers, who may or may not have college-aged children, foot a large part of the education bill. Uwe Reinhardt, professor of economics at Princeton University, asks: "Where is the justice in taxing a young auto mechanic to provide a heavily subsidized education for a friend who will earn three times as much money when he gets out?" *Newsweek* (May 18, 1987) points out: "To some critics that amounts to a policy of robbing the poor to pay the soon-to-be rich." Once again, a government program to redistribute wealth and opportunity has become a burden on the very people it was supposed to help—the poorer members of society. In this case, government has taken on the rather bizarre role of taxing one group to help another group become educated, who can then turn around and compete with the first group—usually successfully—for jobs and economic opportunities.

One effect of this artificially sustained demand for college degrees is that it provides administrators with the resources to engage in inefficient cross-subsidies. A cross-subsidy is simply the "overcharging" of one customer to subsidize the "undercharging" of another. It is a common practice, but government intervention frequently distorts its use beyond efficient limits. For example, in the currently "deregulated" telecommunications industry, the federal government requires local phone subscribers to pay an extra monthly fee to their Bell company, which then is used to help the Bells compete for lucrative business telecommunications contracts. In much the same way, government subsidization of general student demand allows colleges the luxury of keeping graduate student tuitions at or near the price of an undergraduate education—even though graduate students cost a lot more to educate than undergraduates. Scholarship programs also are the beneficiaries of cross-subsidization, as high tuitions for all students fund scholarships for a few of the most academically gifted students. Both types of cross-subsidies help schools in the competitive segment of the education marketplace—attracting academic "stars," athletes, and promising doctoral candidates—by overcharging students in the uncompetitive, government-protected market for general undergraduates.

Naturally, advocates of government funding for higher education claim that other factors besides Federal and state involvement are responsible for rising prices. The most common argument is that since higher education is so labor-intensive, prices will tend to rise more readily than in private business, because technology and other means of reducing costs are not applicable. To some extent, this is true. But costs in other labor-intensive industries have failed to keep up with the rise in higher education costs.

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And methods for increasing efficiency in higher education have been successfully tested at many schools. Charles S. MacKenzie, president of Grove City College in Pennsylvania, suggests that colleges "take a look at things like whether low student-faculty ratios really improve teaching, and the extent to which the tenure process prohibits needed flexibility."

Furthermore, the major increase in labor costs during the 1980s has been for administrative positions, not teachers. A survey by the College and University Personnel Association found that, although faculty salaries rose 5.9 per cent from 1986 to 1987, the salaries for presidents, chancellors, and other top posts went up 7.3 per cent during the same period, while alumni affairs directors' salaries climbed 10.3 per cent.

Although some officials have correctly diagnosed that government aid programs are to blame for the college cost crisis—William Bennett's Education Department being a notable example—in many cases they have advocated simply replacing "bad" programs with "good" ones. Seizing upon the popularity of individual retirement accounts, some states have come up with plans to set up government pools of funds deposited by parents for their children's education. These "education trusts," run by bureaucrats, supposedly would offer parents a painless, secure way of stockpiling potential tuition payments. But as Peter J. Ferrara recently pointed out in a Heritage Foundation report, education trust plans could exert even more upward pressure on college costs, because substantial new funds would be accumulated which parents would have to spend on higher education within a specified time period—or else suffer heavy taxation or even loss of their funds altogether. Funds committed to education in this manner will isolate colleges still further from market forces.

Another proposed solution to the crisis, an "income contingent loan," is now being tested by the Education Department in a five-year pilot program. This program, among other things, would spread the burden of repaying loans over a longer period of time, during which a college graduate's income could be expected to increase. In theory, the pilot program is admirable because it will reduce the interest rate subsidy to students, and may be fairer to taxpayers without a college education, says Robert Staaf, an economics professor at Clemson University. But he adds that the idea simply doesn't get at the root of the problem—government subsidies. A better approach would be to cut loan subsidies, thereby providing students with the incentive to reevaluate their return on higher education while pressuring colleges to reduce costs. But, Staaf concludes, "this effect is likely to come about only if the government gets out of the loan business."

Only when government steps out of the education funding picture once and for all will the upward pressure on college costs subside, and the burden on students and their families lessen. This is but one more application of the axiom coined over 200 years ago by French businessmen in negotiations with their "helpful" government bureaucracy: "If you truly want to help us, leave us alone." □

Education in America

IDEAS ON LIBERTY

Why should the money of one citizen be taken by force to finance the education of other peoples' children, any more than to finance the building of other peoples' homes, the gasoline for other peoples' cars, the payment of other peoples' medical expenses? I have yet to hear a compelling *moral* argument justifying coercion for such a purpose.

—GEORGE CHARLES ROCHE III

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Minimum Wage, Maximum Harm

by Perry E. Gresham

I learned a very big lesson in a very small town. I was president of a small college, but that college was the biggest thing in town; in fact it was about the only place of employment. Teachers were the principal earners, and their salaries were modest. Children came to town anyway. The baby boom reached into the Allegheny foothills. Town children had limited opportunities to earn spending money. They played in the streets and sometimes got into minor mischief.

At about that time we built a new college library. Moving more than 100,000 books was a considerable project. Money was scarce and costs were rising. A bid to move the books seemed exorbitant. We decided to train the town's young people to carry, haul in small hand wagons and wheelbarrows, and place the books in such a manner that our librarians could complete the process. The youngsters loved it. They earned some spending money and had the new self-esteem that comes from joining a work force. They were learning to go to work on time and feel the thrill of doing something significant for the college.

We had hardly started when the comptroller was informed that we were breaking two laws —child labor and minimum wage. The town young were distressed, and the college was subjected to unnecessary expense. I remembered the wise words of Walter Lippmann. In his book, *The Good Society*, he made the observation that good intentions in the field of government action for social change often bring about unexpected and unfortunate results. The legislators who perpetrated the laws meant to help the children and the poor. The effect of the laws was damage to both the poor and the eager young.

Van Wyck Brooks called America one of the oldest countries in the world. He used the term "old" in a pejorative sense as neglected, run down, cluttered with trash, dilapidated, and smitten with desuetude. The work of cleaning up the countryside or doing minor chores around the house is inexpensive, but unlikely to command minimum wage. Old, handicapped, inexperienced, and otherwise limited workers could find occupation in such endeavors—but few employers would be willing to pay the minimum wage. Only the rich or the government could afford to spend a qualified worker's wage for such marginal activity. The government could do it only by increasing taxes.

One's labor is the most valuable property one has to sell. If I wish to work for a small wage, and someone wishes to hire me, why should the law forbid it? The answer is that politicians find this kind of legislation to be popular with special interest groups and, at the same time, small drain on the public purse. They are apparently insensitive to the damage wrought against the young, the old, the handicapped, and the unemployed.

In order to gain perspective on this problem, let us talk about houses. A person who wishes to sell a house would be in great trouble if the government were to establish a minimum price for houses. Suppose an average home sells for $100,000 in our bloated market. The builders might form a lobby for a minimum housing law that would permit no sale for less than $75,000. The politicians might weaken and pass the law.

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What happens to the old person who loves his modest $50,000 home but, for reasons of age, must give it up? Think, also, of the poor person who needs shelter, but cannot afford a $75,000 home.

Or we might think about commodities. Wheat now sells for about $3 per bushel. Suppose Congress were to pass a law fixing $2 as the minimum price for wheat—this with severe penalties for those who sell wheat of lesser quality for $1.75 per bushel. What could a farmer do with his crop of inferior wheat? Those who need less expensive grain for animal food or any one of many purposes would find the purchase of $1.75 wheat to be illegal. Both seller and buyer would be guilty of crime.

Consider the effect if live cattle, now selling for $75 per hundredweight, were to fall victim to those attempting to jack up the price by law, and Congress would make selling cattle at $50 a hundredweight a felony. What happens to the marginal rancher whose cattle are worth no more than $50? An honest farmer or rancher, selling inferior cattle to eager buyers, might go to jail.

Lyndon Baines Johnson, my old friend from Texas, loved to say, "Come now, let us reason together." He then proceeded to ignore reason and rush to government intervention. If we would truly reason together we would know that many people have labor to sell, while but few have houses, wheat, and cattle to sell. Some such labor is substandard. Beginners are worth less on the market than experienced workers. Mentally handicapped persons, who could perform such useful but impecunious tasks as collecting abandoned trash or sweeping sidewalks, cannot sell their labor on the market for as much as those who handle computers or analyze the stock market. Why should Congress feel free to pass laws that would send people to jail for selling their labor for less than the minimum wage? Yet some prominent people are talking of raising it to $5 an hour!

Experience has taught me that political opinions are not influenced by reason. People often misread their own best interests on account of group opinion. Many young people who are offered work which is legally excluded from the minimum wage law destroy their opportunities to gain experience, and spending money, by demanding minimum wage. How hard it is to see clearly that the choice is not between $10 a day and the minimum wage, but between $10 a day and nothing.

I hear the cry that low-salaried workers are shockingly underpaid—that they do not make enough to live on. This is true. No one in history has ever been able to guarantee plenty for everybody. The idea that everybody can live at the expense of everybody else is very appealing, but impossible. There is a way for low-wage people to improve their earnings: Develop the skills that our society needs and a higher wage will be forthcoming. If a person is working for minimum wage at a fast-food place and wishes to make as much as $5 an hour, the way to accomplish this challenging feat is to do the work so well that the wage is increased, or else find an employer who has sense enough to hire competence and pay for it. The market, and not the government, is the open road to the happy land of higher wages.

Those of you who chance to read this article will probably agree with it and say, "Ho hum, what can I do about it?" If, by accident, the article catches the attention of an advocate of minimum wage legislation, my words will be dismissed as the blather of an old and inexperienced professor. The problem, however, will not go away. Repeated witness to the truth will have an influence on sensitive persons. Reaction to over-extended government will eventuate. High taxes and the loss of liberty are as relentless as the tides of the sea, and eventually, corrections will come. A will to learn and repeated witness will exert more influence than we might suppose.

Education is the only solution to the problem. When enough people come to understand the effects of minimum wage laws, the laws will change. Our land could have zero unemployment if we would free ourselves from well-meant restrictions. We could have a beautiful land with tidiness, cleanliness, and affordable help for the sick and the feeble. Special interests would rise in moral wrath against so-called "sweating" or "slave labor," but the workers and the employers would create a free and happy society wherein a person could sell his own labor to the highest bidder. Then we could truly sing, "Sweet Land of Liberty." □

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The Inequality of Labor Legislation

by Deborah Walker

Joe is a blue collar worker. He has worked hard all his life, saving and skimping, holding on to the dream that some day he would have his own business. Joe has always been in favor of all kinds of labor legislation designed to "protect" himself and his fellow workers. For example, he knew that minimum wage laws were designed to help the relatively unskilled workers by taking from relatively wealthy employers and giving to workers like himself. Joe did notice, however, that when these laws became effective the employers were not the only ones who had to "give." His best friend, Sam, who had just started with the firm, was soon laid off.

When this happened, Joe began to analyze the moral principle underlying labor legislation. The "regulators," he concluded, had made the decision that the rights of workers were more important than the rights of employers. The employers should be forced to pay workers like Joe a minimum amount. And, furthermore, it also seemed that the rights of the workers who kept their jobs were also more important than the rights of the workers who had to be laid off because of the increased labor costs to the firm. This was about as far as Joe's analysis went. He could not really determine the moral principle underlying the decision that some people's rights are more important than other people's rights, if there were one; but since he was a worker and not an employer, he didn't mind.

Joe eventually became a member of a union.

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"Is there a moral principle behind the idea that some individuals' rights are more important than other individuals' rights?"

The union leaders were always complaining about competition from workers who worked at home, who weren't members of the union. The union leaders began claiming that those who worked at home weren't keeping adequate records about the wages they received and about their working conditions. If people continued to work at home, the union claimed, employers could easily exploit workers by paying them less than the minimum wage and by not abiding by all the other terms of the Fair Labor Standards Act. The only to be sure this act was being upheld was to make a new regulation against working at home. The union had convinced Joe that this new regulation would benefit him. After all, those people who worked at home were "unfairly" competing with Joe and his fellow union members.

Again Joe noticed that it was not just employers who paid a price for this legislation. Joe's Aunt Betty, who had arthritis in her hips, could not leave her home without undergoing a considerable amount of pain. Despite this handicap, Aunt Betty had been a productive, self-sufficient member of the community, until she

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was told she could no longer work at home.

Joe realized that his rights as a union member seemed to override the rights of the home workers (including Aunt Betty) and the rights of the entrepreneurs who employed them. But again Joe thought it was fine, as long as he benefited.

Joe had always been in favor of affirmative action—who wouldn't be? He knew that his employer deliberately hired minorities and women who would not have been hired had his employer not been afraid of an affirmative action lawsuit. It was only fair, thought Joe, that the rights of these people be considered more important than the right of his employer to hire whoever he felt would be the most productive. And it also seemed only fair that the rights of minorities and women be considered more important than the rights of those individuals who would have been hired if it were not for affirmative action.

The day finally arrived when Joe felt he was financially able to quit his job and open his own restaurant. In his efforts to begin operation, however, he found himself lost in a maze of bureaucratic regulations. He could not sell liquor without a license. He could not open his doors until he met the specifications of the Public Health Administration. He could not use his neon sign because of zoning laws. And the list went on and on. Joe managed to deal with all the regulations and specifications and finally opened his doors.

Financially strained, Joe thought he could still make money by cutting costs. But Joe soon discovered that, again, regulations made it difficult for him to cut costs. *He* now had to pay at least the minimum wage to all of his employees—even the ones he didn't find worth the wage rate. Now *he* had to make sure he was hiring minorities and women to avoid a lawsuit. Now *he* had to meet the requirements of the Occupational Safety and Health Administration.

Within a few months, Joe had to close. His life-long dream was dead. The people for whom he had provided jobs were once again unemployed.

Is there a moral principle behind the idea that some individuals' rights are more important than other individuals' rights? What is this moral principle? Equality of opportunity?

All Joe ever wanted was the opportunity to advance from employee to employer. But he was denied that opportunity in the name of "equality of opportunity." Somehow, to Joe, none of it made sense. When he was an employee—lucky enough to stay employed—his rights were always "protected" at the expense of others. But what rights are these? The right to a job? But these regulations destroyed jobs. The right to a minimum income? But these regulations caused some workers to find themselves earning nothing at all.

Joe felt deeply violated. He nad worked hard all his life to earn enough money to open his business. It was *his* money, *his* hard work, *his* time, *his* life! Now, within a few short months, it was gone. The very regulations which had "protected" him through the years had taken away his life-long dream.

There is no moral principle behind what happened to Joe. Regulations are not passed into law in order to protect a "universal right"—such as the right to own oneself. Regulations are passed into law in order to benefit some at the expense of others. Those most politically powerful decide what and whose "rights" are most important. Indeed, it is at their discretion to decide what is or is not a "right."

When the Founding Fathers wrote that all of us are created equal, they meant equal in the eyes of the law. Every individual should be subject to the same laws, the same "rights," at all times, under all circumstances. Joe objected when his right to his own life—his property—was violated, yet he supported the same violation of the rights of others, as long as he benefited. Unfortunately, the political process promotes such hypocritical behavior.

There is a moral justification for the right of a man to own himself, including his time and effort and the property he honestly accumulates through that time and effort. The moral principle is equality—but equality in the true sense. For one individual to have coercive power over another is to have drastic inequality—some are *owners,* while others are *owned.* The forced redistribution of income, whether through minimum wage laws, home work laws, or affirmative action legislation, is the very essence of this inequality. □

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The Banking Crisis

by Hans F. Sennholz

The Federal Savings and Loan Insurance Corporation (FSLIC), which insures deposits in savings institutions, is in dire straits. Its liabilities exceed its assets by more than $13 billion, up from $6.3 billion a year ago. Currently 505 of the country's 3,120 Savings and Loan Associations are insolvent, and another 435 institutions are barely solvent. FSLIC funds are not adequate to resolve the financial dilemma. Once again, Congressional action may be needed to keep the system afloat. The U.S. government may have to come to the rescue, although just last year Congress authorized the sale of $10.8 billion in bonds over three years to save the ailing industry.

In testimony prepared for the Senate Banking Committee, the General Accounting Office, which is the auditing arm of Congress, estimated the costs of saving more than 200 "hopelessly insolvent" associations at $17.4 billion and of saving another 300 units at $26.4 billion to $36.4 billion.[1] Private analysts estimate total costs to be as high as $60 billion. All such calculations rest on the precarious assumption that interest rates will not rise significantly and that no new problems will arise in the next ten years.

Such a view is extremely optimistic. After all, interest rates are likely to rise again during the 1990s as a result of two Federal policies. The budget deficits are likely to continue to consume business capital *en masse*, crowding out private demand and frightening creditors who finance the deficits. Moreover, the rate of price inflation is likely to rise during the 1990s because the extenuating circumstances of the 1980s are drawing to a close, such as the agricultural depression in the U.S. and falling energy prices.

A more realistic appraisal of the financial situation would consider additional factors. Since 1982, the U.S. has experienced one of the longest booms in recent history. And yet, the U.S. government had to rescue the deposits of millions of savers from 620 commercial bank failures and forced mergers. Some 100 Savings and Loan Associations failed and were liquidated; another 505 are officially insolvent. Federal agencies had to make good some $200 billion of depositors' savings lost in failures involving 7 per cent of some $3 trillion deposits in U.S. savings institutions. If this is peacetime prosperity, what is to become of the financial institutions during the 1990s when the great boom is likely to give way to a recession? After all, recessions follow booms as night follows day.

Persistent economic instability is aggravating the financial situation. The federal government is suffering huge budget deficits that are draining the capital markets, boosting interest rates, and causing large trade imbalances, which in turn are threatening free-trade relationships. Similarly, third-world debt, which has more than quintupled during the 1970s and 1980s, is casting a shadow on the banking system. The funds have been wasted on government enterprises and political largesse, lost in a fruitless effort to export American know-how and prosperity. The policy has cost Amer-

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icans hundreds of billions of dollars and now is jeopardizing the solvency of the financial institutions that extended the credits.

The American financial structure is teetering on the edge of disaster.[2] A time bomb is ticking away under both domestic banking and international finance. Ticking loudly, it makes us wonder when it will go off. It may explode suddenly in the form of a classic "bank-run" or an international panic. Depositors filled with fear and in doubt about deposit insurance and government guaranties, may suddenly rush to withdraw their funds from all savings and loan associations. They may lose faith in the central pillar of the American financial structure, the Federal guaranty, which is bending and cracking under the heavy load of bank losses and Congressional reluctance to cover those losses. The run would be like a bolt from the blue, spreading from the thrifts to all banking, and from the U.S. to all corners of world finance.

Private foreign investors may suddenly bail out, frightened by a sudden outbreak of U.S. inflation, by poor trade figures or harmful government policies, or merely by some unfortunate pronouncement by foolish officials. Sudden foreign withdrawals of large funds would strain the American system and test the solvency of many institutions. Without immediate support by the U.S. Congress, many undoubtedly would fail.

The bomb may explode when foreign central banks abandon their dollar-support operations. Stephen N. Morris, an economist at Washington's Institute for International Economics, estimates that major foreign central banks bought $130 billion last year to support the U.S. dollar and that, by the end of 1987, the 20 largest foreign banks were sitting on a stockpile of more than $454 billion.[3] If these holders of dollar reserves should lose confidence in our financial structure or in the resolve of our financial authorities to correct its lingering defects, a crisis may erupt. When the financial wheels grind to a halt, the system that was born of government thus will return to government for repair and restructure.

We must not allow it to perish suddenly, which would not only spell ruin to many sound institutions alongside the failures, but also ravage the capital market and depress economic activity. It would turn today's creeping nationalization into galloping regimentation. Indeed, a financial crash would have ominous consequences for our economic, social, and political lives.

An Artifact of Government

The American financial edifice was built by legislation and is maintained by regulation. It is as rigid and inert as politics, and as complex as the tangled web of bank regulation. Designed by the New Deal politicians of the 1930s and embellished by their successors in the '40s and '50s, it is clearly incapable of coping with the market forces of the 1980s and '90s. It is destined to give way to a new order.

The edifice that was built during the 1930s replaced the regulatory structure of earlier years, which was the product of a myriad of Federal and state banking regulations. It practically collapsed in 1931 and 1932. By scores and by hundreds the banks closed their doors. Banks that remained open were forced to curtail their operations sharply. Indeed, banking weakness was a prime factor that added impetus to the Great Depression.

The new system was organized as a cartel-like order, complete with all the characteristics of a monopoly.[4] Rigid entry barriers protected its members from "destructive" competition, as did government regulation of production, pricing, and marketing. The Banking Act of 1933, which also created the Federal Deposit Insurance Corporation (FDIC), separated commercial banking from certain investment banking activities. The portion of the law that effected the separation is commonly called "the Glass-Steagall Act." It was to give stability to the system and guarantee the safety of every bank. Toward that end, the law sought to discourage competition and to set narrow limits on branching. It imposed a "needs test" for the issue of new charters, and fixed interest-rate ceilings to prevent the competition of banks for funds. Deposit insurance by the FDIC, finally, was to make all banks equally safe.

New Deal legislation effectively segmented the financial industry. It created the Securities and Exchange Commission to oversee the se-

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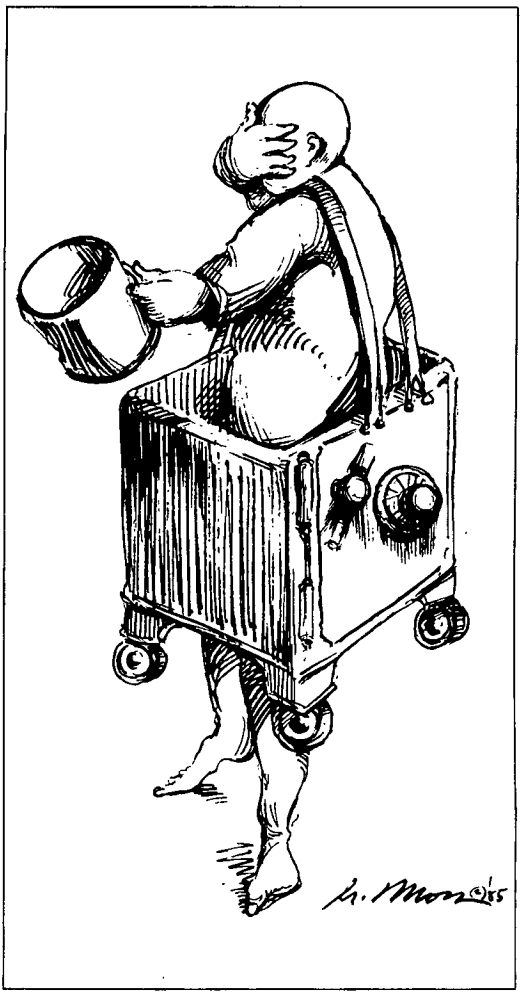
curities industry. To facilitate more credit expansion, it granted additional powers to the Federal Reserve System, such as the powers to mandate reserve requirements and to extend credit on government obligations, not just on "real bills." In 1956 Congress passed the Bank Holding Company Act, extending the Glass-Steagall Act's restrictions to corporate owners of banks. Amendments to the Act, passed in 1966 and 1970, further tightened the restrictions. They limited the expansion of multibank holding companies by requiring Federal Reserve Board approval for new acquisitions, and ordered the companies to divest themselves of ownership in businesses deemed "unrelated" by the Federal Reserve Board. All interstate banking was prohibited.

Throughout the years Federal regulators and special-interest banks lobbied Congress to pass more restrictive legislation. After lengthy hearings, Congress usually complied by removing exemptions and broadening regulatory authority. The 1970 amendments sought to bring one-bank holding companies under Federal regulation and impose additional criteria to the "needs test" for permissible activity. Charter applications henceforth had to prove not only that the planned activity was "closely related" to banking, but also of "positive benefit to the public." It also instructed the Federal Reserve Board to determine which activities were permissible for bank holding companies. The Garn-St. Germain Depository Institutions Act of 1982 permitted bank holding companies to engage in some limited "nonbanking activity" provided it was "closely related" to banking.

It is amazing that, after nearly 200 years of banking legislation and regulation, the U.S. government continues to wrestle with the definition of "banking." The 1970 legislation modified the definition of a bank to include all institutions that both accept demand deposits and extend commercial loans. Thereafter, many new institutions sprang up that either accept deposits or extend commercial loans, but not both. Commonly known as "nonbank banks," they could pursue most financial activities without coming under the restrictions and regulations of financial authorities. As "nonbank banks" became increasingly popular during the 1980s, competing most effectively with banking institutions, Congress proceeded to close the regulatory loophole by passing the Competitive Equality Banking Act of 1987. The Act extended the definition of a bank to all FDIC-insured institutions and subjected them all to Federal regulation.[5]



Winds of Change

The financial cartel system worked for a while. But, like all other cartels, the financial cartel was destined to degenerate as soon as its members were no longer prepared to live by the "stabilization" arrangements and found ever new ways of competing with each other. Even a thick blanket of cartel regulation cannot suppress competition for long. It springs to life in countless forms because man is ever eager to improve his lot. In an economic order based on

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private property in the means of production, he can do so best by rendering better services to his fellowmen; that is, he competes with other producers in serving consumers. He does so even within a cartel.

When newcomers are permitted to join the organization, they are likely to add competitive fervor. Foreign bankers are very anxious to enter the U.S. market for obvious reasons: to join the cartel and enjoy its advantages, to outstrip the older members through greater effort and efficiency, and to place their funds at exceptionally high interest rates.

The spirit of competition is gnawing at the foundation of the financial cartel. It is weakening the structure from within and from the outside. Throughout the world, massive capital formation in private-property economies has given rise to new financial centers that compete vigorously with New York. Tokyo, Hong Kong, Singapore, London, and Frankfurt are financial centers that "globalize" the capital market and erode competitive barriers. Shackled and handicapped at home, many U.S. banks have chosen to go offshore and compete in foreign financial centers. Similarly, foreign banks have come to compete vigorously in American markets through branches, agencies, subsidiaries, Edge corporations (which cannot accept deposits from U.S. residents unless the deposits are linked to international trade), and representative offices. In short, the new world of international competition is seriously threatening the old world of protection and insulation.

The spirit of internal competition is clearly visible in the frantic search for new ways to diversify. It is visible in the rise of "nonbank banks" that render financial services formerly reserved to commercial banks. Brokerage houses, money market mutual funds, finance and insurance companies, and retail establishments compete effectively, offering cash management accounts, other liquid accounts, credit card services, and loan services. Merrill Lynch, American Express, and Sears are pointing the way. Financial competition is alive although the regulatory apparatus is fighting it every step of the way.

Technological innovations are forcing their way through the thicket of regulations. The computerization of many financial operations has greatly reduced transaction costs, which is enabling nondepository institutions to offer many bank-like services. The use of automated teller machines (ATMs) has grown dramatically since the late 1970s. Individual ATM systems may soon link up with national and international networks. Thousands of point-of-sale terminals may serve millions of customers using a great variety of credit cards. On the financial horizon, in-home banking promises to offer all the essential banking services, including bill payment, electronic purchases and sales of securities, and so on. Telephone or cable hookups, satellite linkages, and home computers are destined to play important roles in the financial system of the future.

Keen competition is bound to separate the successful enterprises from the failures. The former succeed by best serving consumers; the latter fail because they fail to serve consumers satisfactorily. They may misjudge or ignore consumer choices and preferences, or mismanage their resources, or allow themselves to be misled by political machinations. To rely on cartel regulation and insulation is to invite financial disappointment in the end.

Regulatory Restructuring

Financial observers of all persuasions and ideologies are in full agreement that the American edifice is in urgent need of restructuring. A healthy and viable banking industry needs to generate returns that not only cover its costs but also attract new capital to support modernization and expansion. It must be able to compete with other financial institutions and other business enterprises.

Most legislators and regulators readily admit that a safe and sound system should not be unduly hampered by regulation and supervision. They may even favor some measure of "decontrol" and "banking freedom to operate in the marketplace." They may advocate "product liberalization" by eliminating some restrictions imposed by the Glass-Steagall Act and certain provisions of the Bank Holding Company Act. Yet, they all envision a restructuring that would *strengthen the supervisory and regulatory restrictions on banks*. They em-

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phasize "prudent supervision," "careful monitoring," and "limiting the risks" posed by new bank services. In short, the old regulators would like to replace the crumbling cartel wall with a *new supervisory safety and soundness wall*.[6]

The world is a scene of changes. We change and our policies change. But we should always ascertain the direction of the change. To replace one wall with another is to reinforce the old direction. To substitute prudent regulation for imprudent regulation is to continue the regulation; it does not reverse the direction. We may wonder about our destination, but it is rather obvious that legislators and regulators will always be in the driver's seat.

Most writers about financial matters accept it as a self-evident truth that legislators and regulators need to manage the people's finances. They are convinced that no one ought to be free because no one is fit to use his financial freedom responsibly and beneficially. This is why they favor a mandatory deposit insurance system with Federal guarantees. They advocate the separation of banking and securities activities, the separation of banking from commerce, and careful supervision of them all. They prefer a financial structure with thousands of small banks to one characterized by large financial institutions. In short, they thoroughly distrust men of finance, but place their trust in legislators and regulators.

To embark upon financial reform and revival is to discard many false beliefs about finance and the role of government intervention. In finance as in all other pursuits, man is free to choose between two basic systems of economic organization: the individual enterprise system and the command system. Throughout their short history Americans generally opted for the former, the system of private property and individual enterprise. In all matters of finance, unfortunately, they frequently succumbed to the lures and temptations of political command. In money and banking they generally preferred politicians and government officials over bankers and entrepreneurs.

After 200 years of countless banking scandals and unending financial crises it is appropriate to reconsider the direction of the road we are travelling. After thousands of bank failures and billion-dollar losses we may want to reverse our financial direction, turn away from the command system, and seek individual freedom. It is eminently effective and beneficial in all other pursuits; it is likely to be the same in financial matters.

No man is free who is not master of his finances. The American command system is an abomination to all friends of freedom. They will not rest until financial commands finally give way to individual freedom. □

1. *The New York Times*, May 20, 1988, pp. D1, D3.
2. Edward J. Kane, *The Gathering Crisis in Federal Deposit Insurance* (Cambridge, Mass.: MIT Press, 1985).
3. *Business Week*, May 23, 1988, p. 27.
4. Franklin R. Edwards, "Can Regulatory Reform Prevent the Impending Disaster in Financial Markets?" in *Restructuring the Financial System*, The Federal Reserve Bank of Kansas City, 1987, pp. 1-17.
5. Federal Deposit Insurance Corporation, *Mandate for Change* (Washington, D.C.), October 1987, pp. 29-33.
6. *Ibid.*, pp. 98-102.

Money Follows Commerce

IDEAS ON LIBERTY

Money, it should be remembered, is not the leader of commerce, but the follower. It comes, legitimately, only to the individual or to the community as the result of industry and good management; industry and good management do not result from the possession of money.

—CHARLES HOLT CARROLL
(1799-1890)

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Decentralization: Freedom by Diffusion

by David C. Huff

One of the beneficial aspects of national election campaigns is their reminder to us that America is becoming dangerously enamored with the false hope of political salvation. The finances, energy, media attention, and zealous devotion heaped upon candidates for high office at times reaches messianic proportions. They provide further evidence that what was once a valid political process now borders on idolatry.

What has caused our nation's obsession with politics? To fix blame upon the electoral system, or upon the candidates, would be inaccurate and overlook the true cause. Such a fixation on politics is but one indication of an increasing drift toward a "Pyramid Society":

> The Pyramid Society is a culture in which a majority of the people spend most of their time transforming the civil government to the near exclusion of themselves, their families, churches, schools, businesses. . . . By changing the powers at the top, we are led to believe that there will be a trickle-down effect of cultural transformation that will blossom into a better society. The problems that a nation faces, as this approach sees it, are solely political. Change the State, and all of society will change with it. This has been the vision of pagan empires since the building of the tower of Babel.[1]

It is easy to see how such a utopian vision produces an unwarranted emphasis on politics.

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More specifically, the philosophy of the Pyramid Society and its top-down remedies by necessity revolve around the concept of central planning. For this reason, it is especially important that advocates of freedom understand and apply the principles of decentralization.

Historical Precedent

The essence of decentralization is a social order characterized by the diffusion of power away from an authoritarian nation-state where politics, economics, and eventually all of life are regulated through the control of a centralized government. By such diffusion, the potential tyranny of the Pyramid Society gives way to the freedoms of multiple jurisdictions, self-government, and the practical hierarchy of family, community, and local government.

The natural appeal of decentralism can be appreciated by examining its rich historical precedents. Throughout history, the disintegrations of both national governments and totalitarian regimes have been followed by the ap-

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pearance of a variety of local assemblies which effectively administered societal affairs. After surveying over a dozen twentieth-century illustrations of this phenomenon, one author has perceptively concluded: "It is striking to reread history with eyes opened to the persistence of this tradition, because at once you begin to see the existence of the anti-authoritarian, independent, self-regulating, local community is every bit as basic to the human record as the existence of the centralized, imperial, hierarchical state, and far more ancient, more durable, and more widespread."[2]

The lessons from history are compelling, and none more so than that of the United States. The decentralist philosophy was a driving force in America's early years, and leaders such as Thomas Jefferson were acutely sensitive to the insidious encroachment of centralism which already had begun during their lifetimes. Jefferson saw in decentralization the spirit of a free society, where each individual would participate in government on a localized, "bottom-up" basis; he envisioned a freedom so important that the individual would "let the heart be torn out of his body sooner than his power wrested from him by a Caesar or a Bonaparte."[3]

Practicality

The repeated emergence of decentralization throughout the centuries should not be considered an anomaly. Indeed, decentralism's longevity and durability bear strong witness to its practicality. Though interventionists stubbornly claim that the need for centralization of power increases as nations become larger and more complex, it is statist programs that have failed time and again.

One important example of the efficacy of decentralization is in the area of economics. The absence of intervention is integral to the successful operation of the free enterprise system. Under laissez-faire capitalism, a society's economy prospers as individuals pursue the improvement of their well-being through the unhampered functioning of supply and demand coupled with the profitable ventures of entrepreneurs. The freedom of choice and diversity of opportunity available in a decentralized free market economy are intensely practical, and become increasingly so as the society expands —for more complexity produces additional choices and enhances the division of labor.

Contrast this with the well-documented and bitter fruits of central planning. As historian Herbert Schlossberg has observed: "The economic results of central direction must, by reason of the central direction alone, be unfavorable, because the system is formally irrational. It substitutes preferences of central planners for the estimations based on a price system that reflects both supply and demand. . . . the planner's will replaces the action of the market."[4]

True freedom, social stability, and economic health can be realized only by applying the practical self-government approach of decentralization. .

Future Implications

A survey of American history reveals a disturbing trend toward centralization and a growing ideology of political salvation. To continue down the present path will destroy the freedom of future generations.

Clearly, then, one imperative for our future as a free nation is the propagation and application of the precepts of decentralization; they are an inseparable part of the formula for liberty. By replacing the misguided illusion of political salvation with education and action in the areas of personal responsibility, limited government, free enterprise, and the liberty-producing features of decentralism, our society can avoid the lethal errors of the past: "[the] pyramids are . . . evidence . . . of the political theory of Egypt. Their silent witness in the desert kingdom of Egypt should remind us that any top-down political structure is doomed to fail."[5] □

1. Gary DeMar and Peter Leithart, *The Reduction of Christianity* (Ft. Worth: Dominion Press, and Atlanta: American Vision, 1988), p. 305.
2. Kirkpatrick Sale, *Human Scale* (New York: Coward, McCann, and Geoghegan, 1980), p. 445.
3. *Ibid.*, p. 450.
4. Herbert Schlossberg, *Idols for Destruction: Christian Faith and Its Confrontation With American Society* (Nashville: Thomas Nelson, 1983), pp. 227-8.
5. DeMar and Leithart, *op. cit.*, p. 305.

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Broadcasting, Property Rights, and the First Amendment

by Gordon T. Anderson

When radio was still in its infancy in the early part of the twentieth century, no one could foresee the enormous scope of the technological revolution that was then just beginning. And in the midst of New Deal euphoria over central planning, few understood the implications of the Communications Act of 1934, which established the federal government's ownership of the rights to use the electromagnetic spectrum and solidified its absolute power to regulate broadcasting. In the time since, however, it has become evident that Federal control of the airwaves is antithetical to the principles of a free society. By relinquishing its control of the airwaves the government could reaffirm the importance of those principles.

Federal regulation of broadcasting began with the Radio Act of 1912, which tried to set up a system for allocation of the spectrum through the administrative decisions of the Federal Radio Commission, the forerunner to the FCC. Perhaps because radio communication and its potential was so poorly understood at the time, the legislation had a fundamental flaw: it failed to establish any system of property rights in the electromagnetic spectrum.

By the mid-1920s, this omission had become glaring, as scores of competitors routinely jammed each other's broadcasts, both intentionally and unintentionally. The chaos on the nation's airwaves prompted the expanded Radio Act of 1927, and, ultimately, the comprehensive Communications Act of 1934. The latter legislation affirmed the government's ownership of all broadcasting rights and established the Federal Communications Commission, which was given extensive regulatory powers. From the beginning, the use of such powers has been guided by politics, as University of Texas Law Professor Lucas Powe points out in his book, *American Broadcasting and the First Amendment* (University of California Press, 1987).

In the late 1920s, a right-wing religious broadcaster used a 1,000-watt station in Los Angeles as his pulpit, from which he issued blistering attacks on corrupt city fathers. Though many of his scurrilous assertions were later verified, the reverend nonetheless became one of the country's earliest victims of political manipulation of the airwaves. At his renewal hearing in 1930, the broadcaster's license was revoked because his sensational comments were deemed not to be in "the public interest." On appeal, the D.C. Circuit Court upheld the revocation, ignoring the plaintiff's arguments that broadcasting speech was protected by First Amendment guarantees. By refusing to review the case, the Supreme Court implicitly agreed with the lower court's view that broadcasters did not have the right to freedom of speech.[1]

As Professor Powe notes, government domination of broadcasters expanded as the influence of the electronic media grew. Franklin Roosevelt, the first president to grasp the political opportunities mass communication offered, also understood the political danger of vigorous and unfettered broadcasting. Roosevelt expanded the reach of the FCC by appointing as

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its chairman James Lawrence Fly, an activist New Dealer whose principal objective as an administrator was to enact rules barring ownership of broadcasting outlets by newspapers—especially those newspapers which opposed the Roosevelt administration.[2]

Though the courts blocked many of Roosevelt's attempts to censor anti-New Deal broadcasting, later presidents of both parties were more successful in using the ever-broadening powers of the FCC to pursue their own political objectives. Every administration since Truman's has at times used the Commission to favor broadcasters who supported them and to punish those who did not. And despite the fact that the FCC is theoretically impartial, the courts have generally upheld its politicization.

Since the early days of licensing, broadcasters have been mandated to "serve the public interest." This duty can be fulfilled in part by airing public affairs programming, including major speeches by elected officials and political candidates. Until very recently, such political programming had to adhere to the dictates of the Fairness Doctrine, an FCC rule which specified that political programming had to be "objective" and present both sides of an issue. If a station aired a Republican's speech, a Democrat had to be given air time to respond, and vice versa. Violations of the Fairness Doctrine often resulted in heavy fines or loss of license for the offending station.

The First Amendment vs. Government Regulation

Controls over broadcasting content such as the Fairness Doctrine are troubling. Casting aside the dubious proposition that any issue has only two sides, a more significant objection becomes clear: FCC content regulation is fundamentally at odds with the concept of freedom of the press, as television journalist Bill Monroe observed in a 1984 speech: "The First Amendment sets up a clear-cut independence of press from government as the journalistic principle most vital to the American people. But the existing regulatory approach to broadcasting offers exactly the opposite formula: government guidance and government rules *to protect the American people from independent journalism*. The First Amendment idea and the regulation idea are mortal enemies."[3]

Though Monroe's thesis is intuitively correct, politicians and judges have continually rejected it. And while the Fairness Doctrine was officially repealed by the FCC in 1987, there is a major movement in Congress to make the former rules Federal law. Congressional supporters repeatedly cite their obligation "to protect the public interest" to justify the proposal.

In a seminal 1943 Supreme Court decision, *NBC* v. *United States*, the Court gave its judicial imprimatur to an omnipotent FCC by examining the Communications Act of 1934 in detail and firmly establishing its constitutionality. In the majority opinion, Justice Felix Frankfurter contended:

> True enough, the [Communications] Act does not explicitly say that the [Federal Communications] Commission shall have the power to deal with network practices found inimical to the public interest. But Congress was acting in a field of regulation which was both new and dynamic. . . . The Act gave the Commission not niggardly but expansive powers. It was given a comprehensive mandate to "encourage the larger and more effective use of radio in the public interest."[4]

NBC v. *United States* was primarily concerned with antitrust violations in the broadcasting industry, but the Court did briefly consider First Amendment questions of the case. Frankfurter wrote:

> The Regulations, even if valid in all other respects, must fall because they abridge, say the appellants, their right of free speech. If that be so, it would follow that every person whose application for a license to operate a station is denied by the Commission is thereby denied his constitutional right of free speech. Freedom of utterance is abridged to many who wish to use the limited facilities of radio. Unlike other modes of expression, radio inherently is not available to all. That is its unique characteristic, and that is why, unlike other modes of expression, it is subject to government regulation.[5]

The rationale for regulation has been that the number of potential broadcasting outlets is lim-

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ited and therefore the government must be the one to decide who can use the spectrum. Frankfurter buttressed this argument by rejecting the plaintiff's First Amendment arguments in this case.

In *NBC* v. *United States* the Court failed to grasp the basic economic fact that all things, including newspapers, are subject to a degree of scarcity. At the time the First Amendment was written, for example, the United States had only eight newspapers. But this did not prompt the Framers to allow the government to regulate the press. In fact, Thomas Jefferson once wrote, "The basis of our government being the opinion of the people, the very first object should be to keep that right; and were it left to me to decide whether we should have a government without newspapers, or newspapers without a government, I should not hesitate a moment to prefer the latter."[6] Jefferson had a reverence for freedom of speech and an unrestrained fourth estate that was lost on Frankfurter.

Red Lion v. *FCC*

The effect of *NBC* was to establish as a legal principle the notion that broadcast speech is inherently different from printed speech in newspapers. The theory rests on the assumption that there is unlimited entry into the print media, but only a finite number of broadcasting outlets. Thus, the airwaves must be subjected to a degree of regulation not accorded the print media. This scarcity rationale has been consistently extended by the courts, including the landmark 1969 decision of *Red Lion* v. *FCC*.

In *Red Lion* the Court affirmed the FCC's control over program content by upholding the constitutionality of the Fairness Doctrine. The case involved a small station in rural Pennsylvania which in the mid-1960s aired a number of vitriolic attacks by conservative preacher Billy Hargis on left-wing journalist Fred Cook, author of the book *Goldwater: Extremist of the Right*. Cook, with help from the Democratic National Committee, convinced the FCC that he was entitled to free air time to respond. In his opinion, Justice Byron White wrote:

> Where one candidate is endorsed in a political editorial, the other candidates must themselves be offered reply time to use personally or through a spokesman. . . . It is not unreasonable for the FCC to conclude that the objective of adequate presentation of all sides may best be served by allowing those most closely affected to make the response, rather than leaving the response in the hands of the station which has attacked their candidacies, endorsed their opponents, or carried a personal attack upon them.[7]

The Court held that the government has a right and a duty to influence the presentation of ideas and issues over the airwaves. By implicitly lauding the "objective of adequate presentation of all sides," the Court effectively discredited the value of individual opinion.

However, in another landmark decision, *Miami Herald* v. *Tornillo* (1974), the Court took a far different view of the obligation of the press to present all sides of an issue. In that case, the *Miami Herald* challenged the constitutionality of a Florida statute which forced newspapers to give space for targets of editorial attacks to respond—a law that was, in effect, a Fairness Doctrine for newspapers. In a unanimous decision, the Court overturned the statute, declaring the sanctity of a free press to be nearly absolute.

A comparison of *Miami Herald* and *Red Lion* is instructive in considering the flawed logic of the Court in broadcasting cases. When radio and television are concerned, the Court has not hesitated to use scarcity as a rationale for minimizing First Amendment rights. Yet in the *Miami Herald* case, Chief Justice Burger noted that modern newspaper publishing has significant entry restrictions just as broadcasting does: "The obvious solution, which was available to dissidents at an earlier time when entry into publishing was relatively inexpensive, today would be to have additional newspapers. But the same economic factors which have caused the disappearance of vast numbers of metropolitan newspapers, have made entry into the marketplace of ideas served by the print media almost impossible."[8]

Recognition of the scarcity of publishing outlets did not compel the Court to uphold the regulation of newspapers. Rather, it strongly reaffirmed the value of an independent press.

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Burger wrote, "A responsible press is an undoubtedly desirable goal, but press responsibility is not mandated by the Constitution and like many other virtues it cannot be legislated."[9]

Where Burger's opinion in *Miami Herald* rejected the role of scarcity in providing an excuse for print media regulation, Justice White used scarcity to support the *Red Lion* decision: "Where there are substantially more individuals who want to broadcast than there are frequencies to allocate, it is idle to posit an unabridgeable First Amendment right to broadcast comparable to the right of every individual to speak, write, or publish."[10]

It is interesting to note that both White and Burger cited *Associated Press* v. *United States* (1945) in their opinions. In *Red Lion,* White used it to justify his contention that "there is no sanctuary in the First Amendment for unlimited private censorship operating in a medium not open to all."[11] In the *Miami Herald* decision, Burger considered the *Associated Press* opinion and rejected it as precedent, noting the "confrontation with the express provisions of the First Amendment and the judicial gloss on that Amendment developed over the years."[12]

The reasoning behind the Court's paradoxically different view of the First Amendment rights of the print media and those of broadcasters stems from the Court's apparent belief that the media are more dissimilar than alike. White argued in *Red Lion* that "although broadcasting is clearly a medium affected by a First Amendment interest, differences in the characteristics of new media justify differences in the First Amendment standards applied to them."[13]

This view exists in part because of the failure of the early communications regulators to establish a property-based system for allocation of the spectrum. The response to the airwaves chaos of the early part of the twentieth century was to produce a system in which the government owns all rights to use the spectrum. Broadcasters are the trustees of the right to transmit over government-owned frequencies. In contrast, newspaper publishers are the owners of their means of communication, a crucial distinction.

Centuries-old common law traditions of property rights serve to protect publishers in a way not currently applicable to broadcasting. Since a newspaper is recognized as actual property, it is a far greater offense for a ruling body to dictate what should and should not be done with it. Broadcasters, on the other hand, merely hold a government-granted privilege. They do not own their right to broadcast, and as a result retain no traditional rights of property. In other words, what the government gives, the government can take away.

A Property-Based System

Establishing a property-based system for the use of the electromagnetic spectrum would end the conflict between the First Amendment and government regulation. It would also have other far-reaching implications for society.

Since the spectrum has a variety of uses beyond television and radio broadcasting, the FCC currently must make administrative decisions as to how much of the spectrum to allocate for each particular application. By the FCC's own admission, these decisions are by nature arbitrary. It is simply impossible for any regulatory agency to decide how to allocate scarce resources most effectively.

For example, in the cellular mobile phone industry (which uses microwave radio transmission to connect callers) the FCC had to pick from a pool of 1,200 applicants for the first 90 licenses. When the Commission later assigned licenses in an additional 30 markets, more than 5,000 entrepreneurs applied. Like the television, radio, and satellite industries, as well as many others, the cellular mobile phone industry desperately wants to increase its share of the spectrum. Yet it can do so only with FCC approval, which in a spectrum filled almost to capacity means denying use for some other purpose. Without a price structure to determine the most efficient use of the spectrum, the FCC must weigh competing claims and decide on its own which services are more important than others.

The FCC should immediately undertake a program of privatization of the airwaves. There are a number of ways it could do this. It could auction off the rights to frequencies to the highest bidder. The advantage of this method

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would be that it tends to allocate frequencies to those individuals or firms which are most eager to have them and can use the frequency most efficiently and profitably. An added advantage would be to help reduce the Federal budget deficit through non-tax revenues gained from this unique form of asset sales.

The major disadvantage with auctions is that existing users have invested millions of dollars into equipment with the expectation of maintaining access to their frequencies. An alternative would be to award frequency rights through a lottery system, but this too might result in a tremendous waste of prior capital investment. If objections to those transfer mechanisms proved monumental, the FCC could simply award property rights to the current license holders. A marketplace for frequencies would then develop. This new market would allow entry for new firms that wished to buy frequency rights just as auctions would, but such a system would not penalize those users currently operating through government fiat.

But the particular mechanism for transferring control of the airwaves from the government to the private sector is not so important as the idea that the public would be best served by the introduction of a market for frequency rights. Only such a market could determine the most productive and efficient allocation of the spectrum.

The record shows that government regulation has been an affront to the principles of free speech and a detriment to society. Until we recognize property rights in broadcasting, that record seems destined never to change. □

1. Lucas Powe, *American Broadcasting and the First Amendment* (Berkeley: University of California Press, 1987), pp.12-23.
2. *Ibid.*, pp. 73-74.
3. "Broadcasting and the First Amendment," *Cato Policy Report*, Volume VI, Number 5 (May/June, 1984), p. 1 (italics in original).
4. *National Broadcasting Company* v. United States, 319 U.S. 554, at 219.
5. *Ibid.*, at 226.
6. Thomas Jefferson, letter to Colonel Edward Carrington, January 16, 1787, quoted in *Bartlett's Book of Familiar Quotations*, Fifteenth Edition (Boston: Little, Brown & Co., 1980), p. 388.
7. *Red Lion* v. *Federal Communications Commission*, 395 U.S. 367, at 378.
8. *Miami Herald* v. *Tornillo*, 418 U.S. 241, at 251.
9. *Ibid.*, at 256.
10. *Red Lion* v. *Federal Communications Commission*, 395 U.S. 367, at 388.
11. *Ibid.*, at 392.
12. *Miami Herald* v. *Tornillo*, 418 U.S. 241, at 254.
13. *Red Lion* v. *Federal Communications Commission*, 395 U.S. 367, at 386.

In the December **Freeman:**

- "Ebenezer Scrooge and the Free Society" by Howard Baetjer Jr.
- "How to Solve the Debt Crisis" by Christopher L. Culp
- "The Liberating Arts" by Edmund A. Opitz
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The Myth of Cultural Imperialism

by Robert K. Rauth, Jr.

What's faster than a speeding bullet, more powerful than a locomotive, and able to leap over hostile elitists in a single bound? Well, it's none other than the all-American duo of Mickey Mouse and Ronald McDonald.

It may come as a surprise to most Americans that overseas these beloved symbols are sometimes about as welcome as typhoid or leprosy. The cries of cultural imperialism are a relatively recent phenomenon. With the withering away of Western colonial empires, nationalists in the newly independent countries often became outraged over the staying power of colonial cultures. These nationalists came to term the presence and domination of Western culture as "cultural imperialism." Paul Harrison's description in his book *Inside the Third World* is typical: "And so there grew up, alongside political and economic imperialism, that more insidious form of control—cultural imperialism. It conquered not just the bodies, but the souls of its victims. . . ."

In time, the strength and attraction of Western popular culture became even more dominated by that of the United States. This development allowed the accusations of cultural imperialism to become just as common in European intellectual circles as in the Third World.

Because the French have traditionally been very proud of their culture, the emergence of American popular culture has been an especially bitter pill for them to swallow. The fear of encroaching Americana has often been on the mind of France's Minister of Culture, Jack Lang. Shortly after the Socialist Party's election Lang called "for a real crusade against . . . this financial and intellectual imperialism that no longer grabs territory . . . but grabs consciousness, ways of thinking, ways of living."

One of the people who have examined cultural imperialism most closely is the exiled Chilean author Ariel Dorfman. Dorfman has published two books on the subject: *How to Read Donald Duck: Imperialist Ideology in the Disney Comics* and *The Empire's Old Clothes: What the Lone Ranger, Babar, and Other Innocent Heroes Do to Our Minds*.

The case of Mr. Dorfman is important because he is so open about the elitism that the movement classically represents. Dorfman is extremely paternalistic toward the poor he has elected himself to represent. He proudly recounts one tale in which he tells a female slum dweller that photo novels, because they foster impossible dreams, are both "a hazard to her health and to her future."

Later we find that it is not photo novels that Dorfman opposes, but the fact that these books send the message that love and money can make one happy. We learn this because, soon after the socialist Allende regime took power, Mr. Dorfman was busying himself by becoming "personally involved in producing new comic books." Obviously, when it comes to Mr. Dorfman, the medium is not the message. As he later notes in *The Empire's Old Clothes,*

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"No matter whether a country is oozing with opulence or on the path to pauperdom, the new generation is always required to accept the status quo of their parents." Unfortunately, Mr. Dorfman never recognized the truism of this statement as he produced the new status quo for his children's generation.

The leftist bias of Dorfman and Lang is not unusual in those denouncing America's cultural exports. Dorfman believes working hard to achieve success is a myth the developed world is trying to perpetuate. (Does this mean he doesn't tell his children that hard work is the key to success?) This attitude is exemplified by his analysis of a Donald Duck cartoon. Dorfman mocks the moral of the story which he considered to be "the amount of money each person possesses is equal to the amount of work and cunning he has put into it." Dorfman is shocked that the cartoon ignores the "years of appropriating other people's labor to build up that wealth."

Uniting Against "Pollution"

The cries of cultural imperialism, however, are not restricted to the world's leftists. In fact, there are few issues that exact such a universal response from the world's elite, regardless of their political position. The left and right have often joined forces against the American "pollution" of their native culture. While leftists are disgusted by the strength and attraction of a base, capitalistic culture—one that emphasizes money, lust, and power—conservatives simultaneously lament the democratization of their "civilization."

One example of this coalition of strange bedfellows occurred recently in France, after the announcement that a European Disneyland would be built near Paris. According to one report, the French Communist Party joined "unreconstructed Gaullists in deploring the encroachment of an 'alien civilization' on a site so close to the 'city of enlightenment.' "

Despite the popularity of American food, music, fashion, and movies among the French middle class, the attacks on America's pop culture by French intellectuals have been particularly cutting. A popular magazine, *Le Nouvel Observateur* featured a cover with Mickey Mouse high above the Eiffel Tower. The headline read: "Is this Mouse Dangerous?" In the accompanying article, one writer likened Disneyland to a "degenerate utopia." One of the leading French newspapers, *Le Matin,* warned that the European Disneyland will "deform generations of French children."

Le Figaro's writers were equally outraged. Louis Pauwels called the coming of Mickey a "defeat for Europe." The most combative was Jean-Edern Hallier who cautioned against a "cellulite mentality" that would lead France to becoming "the 51st state after Hawaii."

This spectacle would have been amusing were it not so disarmingly hypocritical. After all, French rightists never complained about dispatching priests and bureaucrats to convert and civilize French West Africa. Similarly, French Marxists had few hesitations in proselytizing their own brand of religion to Francophobe subjects. As David Lamb, author of *The Africans,* writes: in French West Africa, France "remains the paramount economic and cultural force. . . . Unlike other colonial powers, France governed through a policy of assimilation or, as some have called it, cultural imperialism." This policy has not ended with the continent's independence, although French influence has slackened, much to the mother country's chagrin. Luigi Barzini, author of *The Europeans,* believes that France was the most dissappointed of any of the Western European powers at the loss of colonies and influence.

While condemnations of America's spreading influence are usually limited to the cultural sphere, a surprisingly large chunk of the opposition stems from the economic risks American firms pose to local inefficient enterprises. This economic insecurity further explains the left-right coalition. Workers represented by the left, and owner-managers represented by the right, fear American domination of their home market. In Canada for example, a top labor official fears that "free trade would turn us into bloody Americans." The same attitude is shared by many in Canada's broadcasting and publishing industries, where the link between culture and big business is especially important. Reactions to U.S. moves to open Brazil's computer market were no less fierce. Newspaper editorials were filled with charges of "U.S. imperialism" and Brazil's

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foremost economic newspaper labeled American pressure "Rambonomics." Newspaper cartoons pictured President Reagan as Rambo, slamming Brazilian President José Sarney over the head with a computer.

Unions have also been particularly fierce in their fight against the first McDonald's in Mexico. This Mexico City McDonald's was accused of "threatening national values" mostly because it wanted to use part-time non-union workers. Protesters painted "Death to the Voracious Bosses" on the walls of the restaurant. The horrible crime of the nasty capitalist bosses? Paying non-union workers more in an hour than the union's standard contract paid in a full day. Meanwhile, cars backed up in a mile-long line waiting to order their Big Macs.

Which Culture Dominates?

The world's literati will be happy to know that America itself is not immune to the fear of cultural imperialism. Americans living between Los Angeles and New York often bemoan the cultural products of these two foreign capitals. More serious is the risk posed by what anthropologists term "the law of cultural dominance." This theory states that whichever culture is technologically superior will eventually dominate its inferiors.

Until World War II, this position of dominance was shared by Great Britain and France and was ceded to the United States in the wake of the war. If this theory holds true, perhaps the next dominant culture will be Japan's. As it is, Japanese food, fashion, and art are more popular than ever both in America and worldwide; Japanese technology and management techniques are in even greater demand. While this idea might seem a little far-fetched to some, it would surprise no one in the rust-belt cities of Detroit or Pittsburgh. Auto and steel executives speak openly of their hatred for their Oriental competitors, taking the phrase "trade war" literally. "This time," one auto executive told me, "the Japs won't lose."

At the moment, however, American culture is—if nothing else—technology, and it is in this realm that the fewest complaints abroad are heard about cultural imperialism. But vaccines, telephones, and airplanes are as symbolic of America as Mickey Mouse and Ronald McDonald. Once American technology is introduced—even though technology is generally considered non-imperialistic—a closer mirroring of America is likely to follow. For example, once cars become important to a society, road systems and cities designed to accommodate the vehicles will result. Thus, a more American-looking city is created. As a faster lifestyle comes about, fast-food restaurants such as McDonald's and Kentucky Fried Chicken become more acceptable and necessary.

This trend is especially well demonstrated by the success that these two chains have had in the rapidly developing Asian market. For example, McDonald's highest sales per store have been recorded in Taiwan while Kentucky Fried Chicken's most successful franchise is found in Malaysia. The chains admit that their success has been greatly dependent on these countries' economic development and urbanization.

The worldwide dominance of the English language is as much a result of America's intellectual and economic prowess as it is of the legacy of the British Empire. The majority of the world's foremost academics and businessmen use English; to communicate with them directly, or indirectly through their writings, one must be able to understand English. When Americans, with less than six per cent of the world's population, have won 38 per cent of all Nobel prizes in science, it should come as no surprise that Scandinavian graduate students in engineering use American texts. Similarly, France's premier graduate institute of business management has switched to an English format. As the dean of the school insists: "English is the international business language." What is the alternative for advocates of the theory of cultural imperialism? Should American professors be writing in French or Swahili?

American technical superiority also provides much of the basis for the omnipresence of our popular culture. American acting, writing, and designing is equal or superior to that of any European country. As for the technical side, Americans are without match. In fact, American music and film have become so well-

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known for their production wizardry that there has been a home-grown backlash in favor of less polished projects. Critics have become bored with movies that contain more special effects than plot, and rock music has a large and growing movement that has embraced the raw energy of "garage bands."

Many would reject the law of cultural dominance. To them, the reason American culture is popular worldwide is due to the power of multinational corporations and their manipulative ad agencies. This view was succinctly stated by E. J. Dionne in *The New York Times*: "American culture is popular around the world . . . because it has behind it the enormous resources of a very rich country." But this is further evidence of the movement's elitism. If we are merely the puppets the elitists accuse us of being, we would all be drinking New Coke instead of Classic Coke (a fact that should be especially noted by those who describe cultural imperialism as the cocacolonialism of the world).

Rejecting Popular Culture

The ability to withstand America's popular culture is perhaps best illustrated by a community within shouting distance of America's megalopolis. A short distance northwest of Philadelphia lies a large community of Amish people living an eighteenth-century lifestyle. They have been able to reject T-shirts and television, and have prospered, thus proving that not only is it possible to steer clear of twentieth-century pop culture, but that acceptance of it is not necessary to thrive economically.

The power of advertising is not an omnipotent one. As even Ariel Dorfman realizes, "There is in men and women a deep refusal to be manipulated." Sixty per cent of all grocery products test-marketed fail in America despite the millions of dollars targeted for advertising. Conversely, many important recent musical movements, such as punk, acid rock, and disco, were popular long before they were noticed by radio stations and record companies. Moreover, without the influence of Madison Avenue in the Soviet Union, how can one explain the popularity of Levi's and rock music in that country?

A more plausible explanation for the success of American popular culture abroad has been offered by a French writer, Pierre Billard, who hypothesized a melting-pot theory. As a nation of immigrants, the United States has absorbed talent from all over the world and has synthesized it into a universally accepted culture. In doing so, columnist Richard Reeves states, "the world's great democracy has produced the great democratic culture. It may be the 'lowest common denominator' entertainment, but that's just another way of saying 'universal.' "

The immigrant can be found from the beginning of America's—and therefore the world's—popular culture. Popular culture was born only in the last 100 years, during the height of the immigration influx. Because of the huge numbers of disparate peoples with little knowledge of English, the purveyors of the new culture were forced into simplicity. Kurt Anderson of *Time* points out that comics were pushed by newspaper magnates Pulitzer and Hearst "to appeal to readers freshly or barely fluent in English. Vaudeville was a spangly folk theater of bold strokes that had to entertain first- and second-generation Americans."

This simplicity has, however, provided the elitists with much of their ammunition. One French writer, for example, likened the diffusion of American culture to the Continent as the "cretinization of Europe."

This tradition of simplicity has continued with Westerns, war movies, and police flicks. These movies have been welcomed overseas largely because they are action-filled and thus better understood by people in foreign countries. (Of course, Hollywood has no monopoly on thrillers. Karate films from Hong Kong and Singapore do a bang-up business throughout the Third World. Indian films, which are generally romantic melodramas, do well because the actors use hugely exaggerated gestures better to tell the story. Despite the success Indian romances have had around the world, no one complains about Indian cultural imperialism.)

Another reason that these films do well is because they are created for mass audiences. As French actor-singer Yves Montand, a former Communist sympathizer turned Reagan-admirer comments: "If America has succeeded

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in invading us culturally, it is because we like it. T-shirts, jeans, hamburgers: Nobody imposes these things on us. We like them." In contrast, countries such as France and West Germany spend a large part of their cultural budget producing films and T.V. programs that aspire to be "art." Critic Jacques Barzun comments that this strategy has failed: "The French experience of 300 years is conclusive. In France, those who produced the works we admire today, had to survive as best they could, outside of officialdom and often in angry opposition to it. By contrast, the term 'official art' means art that is competent and safe."

Furthermore, as any free-market advocate would be quick to point out, government projects naturally tend toward inefficiency and ineffectiveness. Thus any government-sponsored program faces double the struggle that any private production would not only in becoming art, but in attaining popularity.

Perhaps one of the most ignored factors behind the attractiveness and quality of America's cultural exports is that they are made in a free environment. Why would a creative Eastern European or Latin American risk producing a movie or album only to have it censored? Maybe one of the reasons literature flourishes in these two regions is because it is one of the few art forms that is a private accomplishment and can be easily hidden.

The perils of censorship of the arts are well illustrated by the history of the Mexican movie industry. Mexican film, according to journalist Alan Riding, experienced a golden era in the late '30s and early '40s. This rise to prominence was recognized throughout Latin America and occurred because Hollywood movies became more concerned with propaganda and less with entertainment.

This gilded age ended in the '50s when the Mexican government bought out the nation's largest studio, and eventually came to own most of the movie theaters and the Cinematographic Bank—which provides financing for most productions. Riding concludes that soon after, "The low quality of the movies exhibited in Mexico . . . reflected the government's fear of political and moral subversion. Censorship remained tight, with only cheap and banal entertainment considered appropriate for the masses." This situation has been altered only since 1970-1976 when the Mexican government eased control and allowed the production of a number of movies that were both critically acclaimed and box-office hits.

Argentine films have been similarly transformed in recent years. As one observer notes, "every time a democratic government assumes power in Argentina, the number of films increases—greater freedom releases creative talent. Financial problems are overcome and international recognition follows," as evidenced by the Oscar-winning *The Official Story*. Obviously, a foreign culture has a much better chance to dominate when local artists are inhibited.

While radio, T.V., and film are often railed against as instruments of American cultural imperialism, the vast majority of governments show little restraint in using the media to further their own interests. The Soviets encourage outer space exploration and development of Siberia through music and film. A song by one government-sanctioned rock group is entitled "I'll Take You Away to the Tundra." This strategy is shared by non-Marxist governments as well. One Mexican politico argues that popular culture should be used to contribute to stability by diverting attention from social problems: "It's better to use tearjerkers than tear gas."

Cultural Imperialism in Miami

One of the best environments to examine cultural imperialism lies not in Western Europe or the Third World but in Miami, Florida. Anglos and blacks in that city are tireless in voicing their objections to Hispanic cultural imperialism. As one bumper sticker states: "Will the Last American to Leave Miami Please Bring the Flag." With 40 per cent of the city's population Hispanic, non-Hispanics often feel like strangers in their own country. They point to Miami's two Spanish-language newspapers, two television stations, six radio stations, and the political domination of Hispanics. They are especially incensed that Miami residents increasingly need to master two languages—an obstacle that has particularly hampered black employment opportunities. For instance, a re-

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cent discrimination complaint was filed by two Miami women who were refused jobs as cleaning women in a downtown office building because they couldn't speak Spanish.

It is not difficult to relate to the problems of non-Hispanics in Miami. But a closer investigation yields a different conclusion on cultural imperialism in Miami. What is taking place in Southern Florida is a hybridization of Hispanic and non-Hispanic cultures: evidence that cultures are dynamic, making the history of cultures a history of evolution. Cultures are adaptive, and as the needs of a society change, the culture is altered.

The most conclusive evidence supporting this theory is the alacrity with which Cubans in Miami have accepted the American dream. With the help of Cuban-immigrant entrepreneurs, a dying port and travel destination has once again become a boom town. Equally important, for better or worse, Hispanic lifestyles are mimicking their Anglo counterparts. The vast majority of Cubans in Florida have learned English, are relatively well-educated, and for those between the ages of 25 and 34, earn a higher median family income than their non-Hispanic white peers. Despite their staunch Catholicism, the Cuban divorce rate matches the U.S. national average and their birthrate falls just below the national average. Finally, and perhaps most significantly, approximately half of all Cuban women marry non-Hispanic men. Older Cubans resent the Americanization of the younger generation nearly as much as Anglos and blacks grumble about the Hispanic influence in Miami.

What all of this means is that America is as subject to foreign influences as other countries are. Americans do not suffer, but enjoy, Jamaican reggae, Chinese restaurants, and British comedy. As evidenced by the difficulties in Miami, hybridization of cultures is not always easy. But those who denounce America's cultural imperialism should realize that closing a society is no solution to preventing outside influences. The most insular societies have the least to offer culturally to the masses. Despite its claim to the world's proletariat, it is ironic that the Soviet Union's most vital cultural export—ballet—has not been appreciated by the masses, but by the world's elite.

A Classless Phenomenon

Strangely enough, popular culture, the child of capitalism, is a largely classless phenomenon. As Kurt Anderson astutely observes, "Unlike serious painting or dance or poetry, the appreciation of popular culture requires no tutelage or special sensibility, not even close attention. Florenz Ziegfeld and George Lucas create art that is one-size-fits-all. Except perhaps for Roman Catholicism, no other Western cultural genus has been as inclusive as modern pop, so truly classless." Perhaps only Levi's and Elvis Presley can fulfill the dream that Lenin and Marx desired. In contrast, with the exception of an occasional gymnast or trapeze artist, modern popular Soviet culture is a wasteland.

It is not surprising that the most open society on earth has the most attractive popular culture. Just as a protected market leads to less competition and fewer innovations, an open market—whether economic or cultural—is bound to be more dynamic. After all, capitalism is exceedingly efficient in giving society what it wants. No one is surprised to learn that New York City is more vigorous culturally than Moscow. What nationalistic elites must realize is that along with the good, an open society may be subject to some dislikable elements. But a closed society brings in nothing—it is dead.

Most of us would regret the homogenization and standardization of the world. After all, finding a McDonald's in Katmandu would make that town a little less exotic and special. But who are we to tell them that they shouldn't have a McDonald's? Let their wallets decide. □

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Bringing the Pirates to Bay

by Gary McGath

Ten years ago, hardly anyone had heard of software piracy. Today, it is a household word and a household crime. People who wouldn't think of sneaking merchandise out of a store or burgling a house regularly obtain copies of computer programs which they haven't paid for. Why does this happen, and what is necessary to stop it?

If we consider "software" in a broad sense, the problem goes beyond computer programs. The same issues and the same psychology arise in obtaining unpurchased copies of audio and video recordings. Software, in this more general sense, means any kind of information stored in a form which can be readily copied.

There are two kinds of software pirates: hobbyists and business users. Hobbyists go largely after computer games and often obtain copies of virtually every game available. Business pirates acquire copies of high-priced business software. Sometimes they get all the free copies they want from an accomplice, and sometimes they buy one copy of a program and then copy it onto every computer they own. The business pirates are undoubtedly the more harmful in terms of economic impact on software producers.

Software publishers often try to protect themselves by means of copy protection and "shrink-wrap" license agreements. Neither method has proved effective. Copy protection consists of modifying the program disk so that it physically cannot be copied. Such schemes can always be overcome, and legitimate users are injured by being unable to make a back-up copy against the failure of the original disk, or a copy to the hard disk which stores all their programs.

"Shrink-wrap" licenses are terms of use which are enclosed with the package, and which the publisher asserts the user has agreed to by opening the package. But these licenses have not been thoroughly tested by the courts, and in any event are useless against pirates who aren't caught. Very few pirates are caught.

The software pirate has a ready set of excuses for his actions: prices are too high; the company doesn't provide decent support; I'm only going to use it once in a while. But the distinguishing feature of software, which allows its theft to seem less bad than other kinds of theft, is that nothing is physically taken from the owner. There is no immediate, physical effect on the inventory or productive capacity of the creator of a piece of software if someone 500 miles away copies a disk and starts using it.

There is, of course, a cumulative economic effect on the producer. The more people make unauthorized copies, the fewer copies tend to be sold, and the less money the producer receives for his effort and expense. But pirates often rationalize that they wouldn't have bought the program anyway, so they aren't cutting into the producer's revenue.

The attitude of software pirates is partly due to the widespread hostility to property rights in today's culture, but more specifically due to a misunderstanding of the nature of those rights. To the average person, property is primarily or

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exclusively material in nature. A piece of property is a physical thing, such as a kettle, a car, or a plot of land. A computer program or a recorded performance is not a physical thing, hence it does not appear so clearly to be property.

But property is not a concept pertaining to matter alone. There is no purely physical fact, unrelated to the human mind, which corresponds to ownership. Possession is not the same as ownership; if someone breaks into my car and drives away with it, I am still its owner even though the thief has seized possession.

Principles of Ownership

Ownership is a concept pertaining to a just mode of interaction among human beings, and it arises out of the fact that people live by creating things of value for their own use or for trade with others. Creation, in this sense, does not mean bringing matter into existence, but rather changing the form of matter in accordance with an idea and a purpose. It is the idea, not the object, which a person actually brings into existence when he creates. By conceiving of a particular arrangement of matter and reducing that concept to practice, a person creates something which he can use directly for his own purposes, or which he can offer to others in exchange for what he needs.

Most commonly, the actual cost of this process is concentrated in the production of individual items. Designing a good chair does take a certain amount of time, effort, and cost in materials, but the major part of the cost lies in the production of each chair. With software, the reverse is true; the cost of producing copies is negligible compared with the cost of devising the form of the product.

In both cases, though, the only way a producer can benefit from offering his product in trade is for others to respect his right to it and to obtain it only on his terms. A person may have other reasons for distributing software than expectation of payment, and there is in fact a large amount of legitimately free software available; but if people are going to make the production of software a full-time occupation, they must and should expect a return for their efforts from the people who benefit thereby. If they do not receive a return, they will have to switch to a different sort of activity if they want to keep eating.

But what does this mean to the would-be user of software? The producer's problem is not his; should he concern himself with whether the programmers at Microsoft will be laid off or the owners of Podunk Programming will go out of business? With most kinds of theft, the likelihood of punishment provides a specific deterrent to taking other people's products without payment; the risk of such penalties is negligible for software thieves. The likelihood that a given pirate's actions will break a software company, and thus injure the pirate, is also negligible.

Risk of peer disapproval is potentially a more effective factor. However, with moral uncertainty being the watchword of the day, most people simply will look the other way when a person steals a program; pirates can even bring up their actions in normal conversation without much fear of disapproval.

In some cases, employers even feel that they can intimidate employees into becoming their accomplices. An anonymous letter in *MacWorld* magazine stated, "I recently had a nasty experience with my boss when I refused to make him a copy of *Works* [a program for the Macintosh computer], which I'd bought for my own use. (He later got a copy from another employee.)"

But there is a more basic deterrent to theft than the risk of getting caught or of suffering disapproval. A person can fake what he is to others, but not to himself. A person cannot escape the knowledge of whether his existence is sustained by his own efforts, or whether he is a dependent who relies on the productive ability of others and on their blindness to the fact that he is living off them.

I am not speaking here of conscience—there are people who apparently have none—but of something even more fundamental, self-knowledge. The person who steals, or who gains admiration by lies, or who obtains his living through a do-nothing job, is inevitably aware that he is living not by his own efforts, but by someone else's, and that he must rely on other people's ignorance of his act in order to maintain this state of affairs; or if he avoids this

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knowledge, he does so only by severely curtailing his ability to recognize reality. Such a person cannot escape the sense of being out of place in the world, since he maintains an antagonistic relationship toward those who benefit him.

Seeking Rationalization for Theft

The evidence for this lies in the fact that thieves, and software pirates in particular, always seek rationalizations for their actions. Muggers try to think of their victims as despicable enemies; politicians imagine that they are serving the "greater good"; and software pirates say that the product is overpriced or that a true hacker would work solely for the pleasure of programming. Some may make peace with their excuses, bolstering their sense of self-sufficiency with a prop made out of ignorance; others will realize in the back of their minds that they have what they have only through the folly of others and will wonder why they always resent people's success. In either case, self-knowledge becomes a danger to them.

Thieves who abandon the pretense of honesty often fall back on the pretense of being smart: "It's stupid to buy something when you can just take it." They attempt to see themselves as attaining their goals by being more clever than the people who buy, and thus as existing by their own wits in the sense of avoiding costs and evading detection. But this is also a pretense; they know, unless they work at shutting down their minds, that their own "cleverness" works only because of the "stupidity" of others who pay for what they buy and who don't notice or care about the thieves. They are counting on the failure of the very people whose successful efforts they use.

(This needs some clarification; a person who makes a living by understanding some phenomenon better than others is not dependent on their lack of knowledge in this way. A doctor who treats people for injuries they incurred through ignorance is benefiting from their belated intelligence in seeking to solve their problem; he is not relying on their *continuing* failure to recognize reality. In contrast, a doctor who urged his patients to continue being reckless so that he could treat them again would be actively promoting stupidity, and would be entering an adversarial relationship with the people providing him with a living. Software pirates likewise depend on publishers' and honest users' continuing ignorance of or indifference to their actions, and are threatened rather than benefited when people catch on to their mistakes.)

The best defense against software piracy lies neither in physical hindrances to copying nor in stiffer penalties. The first have been shown to be ineffective in preventing theft and inconvenient to legitimate users. The second are useless if the pirates won't be caught anyway. The primary deterrent to theft in stores—at least in the more peaceful neighborhoods—isn't the presence of guards and magnetic detectors, but the fact that most people have no desire to steal. The best way to stop piracy is to instill a similar frame of mind among software users. This means breaking down the web of excuses by which pirates justify their actions, and leaving them to recognize what they are. Ultimately, this is the most important defense against any violation of people's rights; without an honest majority, no amount of effort by the police will be effective. □

Alfred North Whitehead

IDEAS ON LIBERTY

Without a society in which life and property are to some extent secure, existence can continue only at the lower levels—you cannot have a good life for those you love, nor can you devote your energies to life on a higher level.

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Leave DAT Alone

by Carl Clegg

Digital audio has made brisk strides during the past decade. Compact disc (CD) technology, in particular, has gained a large share of the American music market. But the wave of the future may very well be digital audio tape (DAT).

DAT has a lot to offer. Already standardized, DAT recorders are sold in Japan, and on a limited basis, in Europe. The DAT cassette—about half the size of a conventional analog cassette—can store two hours of CD-quality music. Similar arrangements of digitally stored bits and bytes account for the ultra-high fidelity of both DAT and CD formats. The principal advantage of the DAT recorder over the CD player, however, is recordability. This very asset, in fact, is responsible for the current ban in the United States on DAT technology.

The impetus behind the DAT embargo is an effort to appease the prerecorded-music industry. Their chief concern is that bootlegging will cut into their profits. While their concern is legitimate, their solution is not.

The record industry is advocating laws which would coerce DAT manufacturers into equipping each DAT recorder with a copy-code chip. These chips would inhibit the recording of specially encoded CDs or, for that matter, any encoded medium, including prerecorded DAT cassettes.

Record-company executives contend that DAT would be an open invitation to piracy—a violation of musicians' property rights. In reality, however, the copy-code chip would violate consumers' rights to make copies for personal use.

The same laws which prohibit unauthorized reproduction of published material also prohibit bootlegging of prerecorded music. The "fair use" clause of the Federal copyright law permits reproduction of copyrighted works for educational and noncommercial purposes. Likewise, the law permits consumers to duplicate prerecorded music for personal use only.

It seems reasonable that if someone buys an LP or CD, he should have the right to make a tape copy to play back on his Walkman, in his car, or, for that matter, on his DATman. Here, the law agrees. There is, therefore, a glaring contradiction: on one hand, the consumer has the right to make home copies for personal use; on the other hand, the proposed copy-code law would prevent him from exercising that right.

The copy-code argument is fallacious for another reason: the law would be unenforceable. Historically, technophiles have responded to any mechanical device that annoys them. (This, of course, is not to say that what they do is always legal or moral.) Their answer to the radar trap was the radar dectector; their answer to scrambled video signals is the descrambler; their answer to the copy-code chip would come soon after the enactment of the copy-code law. Any law, such as the copy-code law, which is widely viewed as unfair and is easily circumvented, breeds disrespect for all law.

Carl Clegg is a senior at Brigham Young University, studying Spanish and philosophy.

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Just as Prohibition moved liquor businesses underground, the current DAT embargo has created a plethora of unauthorized "dealers." If one has the right connections and is willing to deal with a back-alley swindler, it is possible to buy a DAT recorder in the United States.

Proponents of the copy-code law claim they are defending the property rights of musicians. It seems clear, however, that record labels are more concerned with their own sales than with the rights of artists. In fact, the implications of the copy-code proposal actually offend the artist because encoded music suffers sonic degradation. The artist's music never reaches the consumer's ear in a pure form.

The high resolution of the CD offers the closest replication of "live" music. Critical listeners, however, who have performed comparison tests between coded and uncoded music, claim that the encoding is annoyingly obvious and seriously detracts from the quality of prerecorded music. A Gallup poll showed that even the untrained ear can detect encoded music. Since all prerecorded music (and presumably, radio broadcasts, too) would be encoded, virtually everyone would suffer, not just the DAT owners.

Consumers as Criminals

One of the most offensive inferences of the copy-code proposal is the presumption that all potential DAT consumers are criminals. Those most offended, of course, are home-recording buffs—those who enjoy recording not prerecorded music, but their own creations. Under the copy-code law, anyone wishing to purchase a DAT recorder would be forced to buy a copy-code chip—an accessory he probably doesn't want and shouldn't be forced to buy.

Perhaps record company executives should take a retrospective look at the conventional analog cassette. When it first became popular, the cassette was feared by record companies as a means for copy-pirates to poach music from LPs. Today, prerecorded tape sales—especially with the advent of the Walkman—exceed the sales of LPs and CDs combined. Since a prerecorded DAT tape would sound at least as good as a CD, record companies may be working against themselves by crippling a future market.

One way to deal with the problem of DAT piracy might be a stiff penalty for criminal trafficking of pirated tapes. We also should look to the free market to generate its own solutions. The personal computer industry, for example, has done amazingly well without the "help" of anti-copying chips (which, a few years back, were thought to be essential). Software companies, in an effort to discourage unauthorized copying, reward paying customers by offering manuals, future revisions, and in many cases, telephone trouble-shooting, at little or no extra cost.

Record companies need to show more initiative. One record company, for example, has addressed the dilemma of multiple formats by offering a cassette copy with the purchase of each CD. Far-sighted companies will spend more resources on producing prerecorded DAT tapes, instead of trying to ban and devitalize DAT. Consumers would have no need to copy CDs if their favorite music were available on DAT. The best approach to progress is not to resist it, but to adapt to it. □

John Stuart Mill

IDEAS ON LIBERTY

The only freedom which deserves the name, is that of pursuing our own good in our own way, so long as we do not attempt to deprive others of theirs, or impede their efforts to obtain it.

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Privatization at the State and Local Level

by Donald Grunewald

Recently, I had the occasion to visit a domestic airline terminal in the United Kingdom. I was struck by the many improvements since my last visit to the same terminal four years earlier. It was cleaner and there were more amenities—several places to eat, an efficient luggage area, and even comfortable seating in the waiting area including seats one could lie down on if a plane were late.

When I inquired what had caused the change, I was told that the airports had been privatized by the Thatcher government—they are now in the private sector. Under private ownership, there is an incentive to provide better services to travelers. The profit motive works, especially when freed from the burden of a large bureaucratic public airport authority where no one seems to care about the traveler.

Since privatization of airports works in the United Kingdom, why not try it here? Imagine New York's La Guardia Airport, for example, with travelers permitted to pay for parking via credit cards or with people-movers that actually were in operation to ease carrying baggage from the parking garage to the terminal. Privatization of our airport terminals through a sale of common stock would have the added benefit of permitting repayment of some bond issues, resulting in lower effective taxation to the general public which now pays for such facilities.

Privatization could well be extended to other areas of state and local authority. Privatization of public housing projects (this is being done now in the United Kingdom) through sale to tenants via cooperative or condominium ownership would lead to improved housing. Tenant owners would take more care of their apartments and common areas than do tenants in public housing.

Privatization also could be extended to public higher education. Many of our public colleges of higher education are agglomerated into large systems with an extensive bureaucracy which spends much of its time and energy coordinating turf issues and handing out political patronage at the direction of local politicians.

For example, the City University of New York system has twenty presidents as well as many central officials such as a chancellor and a plethora of vice chancellors, assistant vice chancellors, and so on. If the City University were privatized into one or two independent institutions for each borough of New York, the entire central bureaucracy could be eliminated and much of the bureaucracy caused by the excess number of units could be done away with. The funds saved could be used to improve the quality of education, thus reducing the number of dropouts and enabling more graduates to read and write the English language. Hiring presidents on the Tammany system of dividing the jobs up by ethnic, religious, and other influences could be replaced by hiring presidents on the basis of merit.

Privatization of public systems of higher education could take two forms. Public colleges

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could be converted into institutions like independent private colleges which tend to be more cost effective and less subject to improper political influences. Alternatively, some of the public colleges could be privatized as proprietary institutions—with proceeds of sales of stock being used to help pay off the debt obligations of the public system. Proprietary higher education can be of high quality, as has been proven by such institutions as the School of Visual Arts in New York or the Arthur D. Little Management Institute in Massachusetts.

Privatization of some other institutions, such as hospitals, is already taking place in some areas of the country. Such privatization at the state and local levels will benefit the public by improving the quality of the services. Owners will take better care of the properties involved and have more incentive to provide good service to users. Privatization also can improve the economic efficiency of such institutions as airports, housing, colleges, and hospitals because of the profit motive and through a reduction of politicization (such as hiring administrators for political reasons) and a reduction in bloated and overpaid bureaucracies.

Privatization of such institutions has worked in the United Kingdom and elsewhere. It should be tried here. □

Free Needles

IDEAS ON LIBERTY

New York City officials have decided to distribute clean needles to intravenous drug users to combat the spread of AIDS. Will the program work? Dean Herbert London of New York University, writing in the March 1988 issue of *The London Letter,* expresses a healthy skepticism:

"When it comes to the government's AIDS initiatives, it is useful to recall what happens when the government gives anything away. We know, or should know that the blankets given to the so-called homeless are now sold at open bazaars in many city locations, and that city distributed methadone is sold by addicts to other addicts. Might not there be an underground market for the sale of government distributed needles too?

"Give-away programs can be counted on to spawn problems both practical and ethical. Drug companies are about to be forced into the unethical practice of distributing hypodermic needles. With needles distributed freely, under government supervision, it can be safely predicted there will soon be complaints of below par quality and supply shortages. But this will be only the beginning. It is almost inescapable that a suit will be brought against the state for promoting drug use or, if an addict dies of an overdose after using drugs in a hypodermic needle, charges of manslaughter. It can also be anticipated that if this program becomes part of the landscape of government assistance activities, at some time in the future the public will be entertained by a procurement kickback scandal in which one or more politicians will be indicted for taking bribes. There will be much talk of declining moral standards from editorial writers, even though the outcome should have been foreseeable by anyone familiar with the history of government give-away programs.

"Even if one rejects the moral argument against needle distribution, there is still the irrationality of yet another government give-away program that is inherently inefficient. The additional cost of several pennies for clean needles to drug users who spend several dollars getting high, is not unreasonable. If drug users wish to survive—a highly dubious proposition in the first place—the investment of several pennies for clean needles shouldn't be an exorbitant price to pay, nor should it be the responsibility of government to provide them."

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A REVIEWER'S NOTEBOOK

Educating for Virtue

by John Chamberlain

People who talk about educating for virtue are prone to be didactic and preachy. One distrusts them as being Holier Than Thou. Fortunately, Joseph Baldacchino in his *Economics and the Moral Order* (National Humanities Institute, 426 C Street NE, Washington, DC 20002, 43 pp., $4.00) and the contributors he has assembled for another book, *Educating for Virtue* (National Humanities Institute, 114 pp., $5.00) are wary of pitfalls.

Russell Kirk sets the tone in his introduction to the Baldacchino book and in the separate essay he has done for *Educating for Virtue*. He is humorous about it all. He is not an enemy of economics, but he doesn't think economics is everything. We need a moral setting for a free market system. Kirk would call Ludwig von Mises a giant of free market theory, but he thinks Mises must be supplemented by a look at Wilhelm Roepke of Geneva. He tells the story of the Mises visit to Roepke after World War II. Roepke showed his visitor the garden plots that citizens of Geneva had planted as a food supplement both in the war and after. Mises shook his head. "A very inefficient way of producing foodstuffs," he said. "But," so Roepke replied, "perhaps a very efficient way of producing human happiness."

Economic productivity is made for man, says Kirk. A free and prosperous economy is the by-product, so to speak, of a society influenced by sound moral principles and accustomed to good moral habits. The Ten Commandments are important, no matter what the individual may think about Biblical revelation. When societies cease to honor their forebears and engage in falsehoods and adultery, decadence sets in. One does not have to be preachy about that. The common sense attitude expressed by Willi Schlamm, who said he believed in the Ten Commandments and Mozart, is enough.

Some of the essays in *Educating for Virtue* tend to be ponderous with high level abstractions. I could do without hearing about epistemology, which always sends me to the dictionary. But two essays, Peter Stanlis's "The Humanities in Secondary Education" and Solveig Eggerz's "Permanence and the History Curriculum," are blessedly concrete. So are the paragraphs on Secretary of Education William Bennett in Russell Kirk's essay. Bennett, says Kirk, "is sufficiently bold to recommend that young people learn about traits of character by acquaintance with the literature of the Bible; he mentions 'Ruth's loyalty to Naomi, Joseph's forgiveness of his brothers, Jonathan's friendship with David, the Good Samaritan's kindness toward a stranger. . . .' "

Peter Stanlis takes as "an archetypal model" the freshman survey of English literature taught at Middlebury College in Vermont during the 1940s. He thinks the Middlebury course could be adapted for limited high school use. The Middlebury survey began with selective essential literature from Beowulf through Thomas Hardy. There were three plays by Shakespeare,

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Joseph and his brothers

a history, a tragedy, and a comedy. For biography the Middlebury students read Boswell on Samuel Johnson. For fiction there was Fielding's *Joseph Andrews* for the eighteenth century, Dicken's *Great Expectations* for the nineteenth, and Virginia Woolf's *To the Lighthouse* for the twentieth.

Tales that Teach

Stanlis thinks that students who begin with imaginative literature in grade school, starting with Mother Goose and Robert Louis Stevenson's *A Child's Garden of Verses*, with a follow-up of Grimm's fairy tales and Aesop's fables, are sufficiently well-prepared to handle more demanding literature in their junior year in high school. He suggests cross-fertilization courses in English and European history. The survey course in English literature should not be in literary history, but in literary criticism of assigned plays, poems, and fiction.

The exposure of students to the whole range of literature must contribute to virtue simply because the examples in stories make their own points. Lady Macbeth and her husband came to no good end.

The setting for the humanities must be history. Solveig Eggerz laments that history has not only lost its place in the schools but "has been cannibalized by social studies." Since social studies can be anything an individual teacher might be interested in pushing (psychology, sociology, anthropology, or whatnot) there is no compulsion for students to learn about significant dates. They can and do emerge from school with no valuable frame of historical reference. "In the name of relevance," Eggerz says, "students immerse themselves not in the causes of the fall of the Roman Empire, or in the ideas that inspired the Renaissance, or in the build up to and the consequences of the French Revolution, but in energy education, gun-control education, urban studies. You name it. Social studies has got it—or can order it for you."

One book in common use dismisses the Age of Exploration with a few perfunctory words about the use of the compass. "One can only lament, says Eggerz, "The absence of . . . exciting stories on Ferdinand Magellan, Francis Drake . . . the Spanish Armada."

Clearly, much needs to be done to bring education back to schooling. □

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COMPASSION VERSUS GUILT AND OTHER ESSAYS

by Thomas Sowell

William Morrow and Co., Inc., 105 Madison Ave., New York, N.Y. 10016 • 1987 • 246 pages • $15.95 cloth

Reviewed by David M. Stewart

"When a political crusade is on, there is no time to wait and see if anybody knows what they are talking about." To anyone who has followed only Thomas Sowell's scholarly writings over the last decade, such a bald and sardonic comment may seem a bit out of character in tone, though not at all in content. With meticulous scholarship, Sowell's works of the 1980s, beginning with the brilliant and seminal *Knowledge and Decisions,* have unraveled the verbal veils in which activists, academics, and politicians have clothed so many factually shallow and logically absurd theories and policies.

But Sowell's latest book is a collection of powerful broadsides, originally published as newspaper columns. The language here is blunter, the arguments terse and less courteous, the overall effect more scathing—and very emotionally satisfying.

Most of the essays in *Compassion versus Guilt* are, in effect, popular treatments of the philosophical themes set out in Sowell's previous book, *A Conflict of Visions.* In that work he posited a dichotomy between "constrained" and "unconstrained" visions of man's moral and mental natures and capacities. The constrained vision holds social change as something to be approached cautiously because of the intractable limitations of human morality and knowledge. The unconstrained view holds social change as directly manageable, at least by a selfless and enlightened few.

In this book, Sowell takes a side—the constrained side. The most frequent target of his barbs are "deep thinkers," people whose credo has such items as: by eliminating high standards we can eliminate failure; people are entitled to welfare in preference to "menial" work; only political and bureaucratic jobs are noble and valuable; sex education is the solution to the teen pregnancy problem; affirmative action is good despite the opposition of its supposed beneficiaries; and so on. Sowell is at his polemical best when he shows the contortions his opponents must perform to sustain these views in the face of their absurd or disastrous implications and results.

Thomas Sowell's works provide lovers of liberty with a vast store of careful logic and illuminating facts that can help us change minds and even policies. But most of us must make our arguments for liberty in situations that demand brevity—letters to editors, private conversations, local meetings, and the like. These essays show that issues can be dealt with briefly yet trenchantly, with respect for facts and with explosive effect on statist arguments. □

Mr. Stewart is an advertising copywriter and a free-lance writer in Rochester Hills, Michigan.

LUDWIG VON MISES: SCHOLAR, CREATOR, HERO

by Murray N. Rothbard

The Ludwig von Mises Institute, Auburn University, Auburn, Alabama 36849 • 1988 • 87 pp., $8.00 paperback. Also available from The Foundation for Economic Education.

Reviewed by Bettina Bien Greaves

The great Austrian economist, Ludwig von Mises, died in 1973. A generation of young students has come of age since then. These new students know Mises only by name and through his reputation as an advocate of free markets. Although they could not know Mises personally, they are fortunate in having available a growing volume of literature about him and the economic theories he expounded.

Several books have been written about Mises' life—for instance, his own *Notes and Recollections* (published posthumously in 1978) and his widow's *My Years with Ludwig von Mises* (1976 and 1984). *The Essential von Mises* (1973) by Professor Murray N. Rothbard, reprinted in the 4th edition of Mises' *Planning for Freedom* (1980), gives a brief introduction to the man and his work. But now

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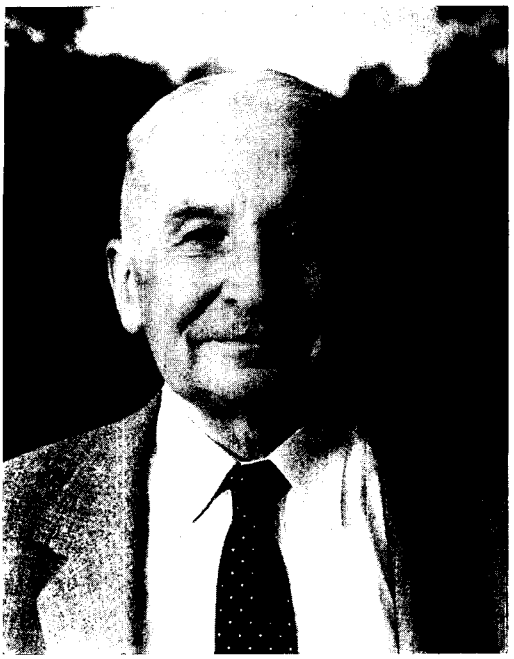

Ludwig von Mises
(1881–1973)

this new booklet, also by Professor Rothbard, gives an excellent, slightly longer, overview of the high points in Professor Mises' life and of his major contributions to economics.

For several years, when Rothbard was working for his doctorate at Columbia University, he was an active participant in Mises' graduate seminar at New York University. He knew Mises well. And he understands the economics Mises taught as few others do.

In this booklet, Rothbard tells of Mises' early life in Austria and of his career as a teacher and as an economic adviser to the Austrian government. He describes two of Mises' major books published during those years—*The Theory of Money and Credit* (1912) and *Socialism* (1922). Rothbard tells about Mises' private seminar, attended by such notables as F. A. Hayek, and he discusses Mises' struggles in Vienna against inflationists, socialists, and communists.

When Mises realized that the situation in Austria was hopeless, he left his native country for Switzerland. There he spent several years (1934-1940) teaching and writing. Among other works, he wrote a weighty and important economic treatise, *Nationaloekonomie,* which was published in 1940. Hitler was then riding high in Europe. Few readers of German were in a position to study the economic theory of free markets at that time, so the sales of Mises' books were disappointing.

To escape the catastrophe in Europe, Mises left Switzerland. He arrived in the United States in 1940 with his wife and immediately began to carve out a new career for himself, lecturing and writing in English. In the remaining three decades of his life, he wrote six books, including his magnum opus, *Human Action,* a complete rewrite in English of his ill-fated *Nationaloekonomie*. He also wrote several monographs and many articles.

In this booklet, Rothbard briefly explains Mises' epistemology—the fundamental principles from which Mises reasoned. Rothbard also summarizes Mises' most important contributions to the theory of money and banking, the causes of the business "cycle," and the reasons why economic calculation is impossible under socialism.

Mises' understanding of the consequences of government intervention made him a pessimist for most of his life. Yet he never gave up. He met every danger, Rothbard writes, with "magnificent courage . . . no matter how desperate the circumstance." Whether he was battling inflation, socialism, government intervention, or Nazism, "Ludwig von Mises carried the fight forward, and deepened and expanded his great contributions to economics and to all the disciplines of human action."

Rothbard gives the reader a good, if abbreviated, introduction to Ludwig von Mises, his life, his character, and his work. This booklet will interest both the novice and the serious scholar. □

Mrs. Greaves is a member of the senior staff of The Foundation for Economic Education. From 1951 to 1969 she was a regular participant in Ludwig von Mises' graduate seminar in economic theory at New York University.

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Join us in the pursuit of an ideal.

The ideal of freedom is to let anyone do anything he pleases, as long as his behavior is peaceful, with government empowered to keep the peace—and nothing more. An ideal objective, true, but one that must be pursued if we would halt the continuing descent of our society from bad to worse. Nothing short of this will suffice. And unless we fully understand the ideal—and what makes for its attainment—we'll tend to settle for powerless, futile little pushes and shoves that yield no more than a false sense of something done.

—**Leonard E. Read**

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